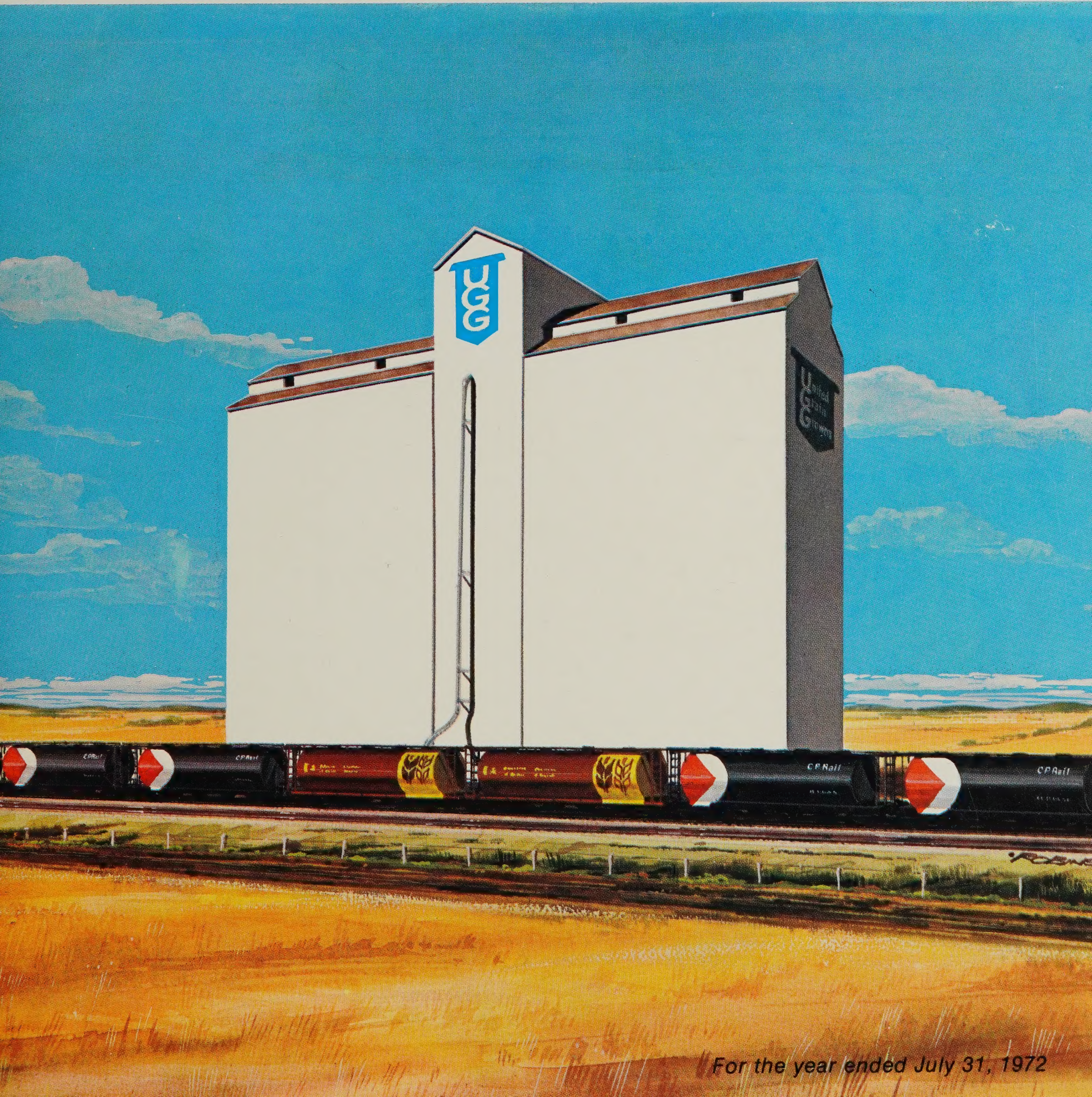
66th Annual Report to Fifty-Eight Thousand Shareholders

United Grain Growers



For the year ended July 31, 1972

Front Cover: Approved design of new twin-annex country elevator for points with a large grain handling. The annexes feature 6,000-bushel-an-hour intermediate conveyors which eliminate the need for double elevation during loading. A double leg allows elevation and shipping at the same time. The $250,000 version of this unit can handle about 1.5 million bushels a year. Details are discussed in the text.

Inside Front Cover: For the second year in a row, cattlemen had a good year and beef prices are expected to stay firm for several more years.

Inside Back Cover: Given present tariffs and inflated costs, and the pressure for railroad abandonment, the number of low-handling elevators such as this will continue to decline.

Printed by The Public Press Limited

Subsidiary Companies

The Public Press Limited

United Feeds Limited

U.G.G. Insurance Agencies Limited

United Livestock Feeds Limited

United Grain Growers Terminals Limited

The Grain Growers Export Company Limited

The Country Guide Limited

Associated Company

XCAN Grain Ltd.

Contents

Board of Directors

A. M. Runciman
Abernethy, Sask.

J. I. Stevens
Morinville, Alta.

D. L. Trapp
Harris, Sask.

L. F. Snyder
Wayne, Alta.

Allan Smith
Red Deer, Alta.

H. M. Dickson Jr.
Warner, Alta.

C. S. Banks
Benito, Man.

L. F. Hehn
Markinch, Sask.

E. W. Hood
Carberry, Man.

W. G. Morken
Sturgis, Sask.

J. G. Omichinski
Oakville, Man.

Sam Sych
Brownvale, Alta.

Officers

A. M. Runciman, *President*
Winnipeg, Man.

Allan Smith, *First Vice-President*
Red Deer, Alta.

D. L. Trapp, *Vice-President*
Harris, Sask.

C. S. Banks, *Vice-President*
Benito, Man.

W. G. Winslow, *General Manager*
Winnipeg, Man.

John Wachal, C.A., *Treasurer and Chief Financial Officer*
Winnipeg, Man.

J. A. White, *Secretary*
Winnipeg, Man.

J. F. Mants, *Manager, Country Operations*
Winnipeg, Man.

E. V. Titheridge, *Manager, Terminal Operations and Grain Marketing*
Winnipeg, Man.

K. L. Matchett, C.A., *Assistant Comptroller — Special Services*
Winnipeg, Man.

R. A. Reinbold, *Assistant Comptroller — General Accounting*
Winnipeg, Man.

Auditors: Price Waterhouse & Co.

Head Office, Winnipeg, Man.

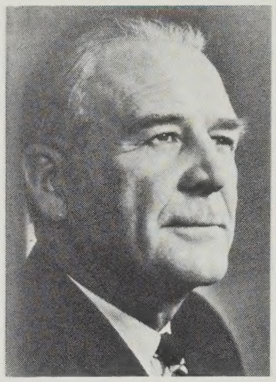
Highlights

Financial	1972	1971
Operating revenues	$ 36,835,000	$ 35,835,000
Net earnings	1,932,000	2,045,000
Working capital	11,874,000	11,450,000
Capital expenditures—net	4,135,000	1,722,000
Total investment in fixed assets	67,671,000	63,658,000
Accumulated depreciation on capital assets	28,774,000	27,112,000
Paid-up share capital	6,797,000	6,795,000
Shareholders' equity	26,432,000	24,906,000
Cumulative total of shareholders' dividends	11,990,000	11,599,000
Cumulative total of patronage dividends including interest thereon	27,725,000	26,131,000

Statistical		
Country handling—in bushels	144,000,000	121,000,000
Elevator storage capacities—in bushels		
Country	63,989,000	66,315,000
Terminals	16,285,000	16,645,000
Number of points where country elevators are operated (total elevators 768 in 1972 and 793 in 1971)	499	534
Number of employees	2,116	1,956
Number of shareholders	57,642	58,063
Number of shareholders' locals	330	326

Report of the President

on behalf of the Board of Directors



A. M. Runciman
President

Record grain handlings offset a sharp drop in storage earnings and enabled your Company to achieve the third highest earnings in its history, during the 66th fiscal year, ended July 31, 1972.

Grain receipts of 144 million bushels at country elevators and 130 at terminals easily surpassed the previous highs of 121 and 108 million bushels handled last year. Average daily country stocks of 42.4 million bushels were down six million from 1971, meaning over one-third of the storage capacity in the U.G.G. system was empty*.

For the first time in four years, the agricultural supply operations of United Grain Growers showed a profit. Even though sales of seed grain were down 20 per cent and margins were very narrow, a 24 per cent increase in sales of fertilizer and a 17 per cent increase in feed volume allowed moderate earnings.

However, net return on investment was only 2.8 per cent, and in the country elevator business chronically low handling and storage margins continued to force all companies to place more emphasis on survival than innovation. Inflation in the form of a 7 per cent increase in wages, a municipal tax burden averaging $2,080 per elevator, and a 35 per cent increase in costs of construction limited any form of aggressive expansion. Even though $1.5 million was spent on repairs and renovation this past year, an unprecedented rise in the price of lumber of more than 50 per cent reduced the impact of the construction program.

Given the present low margins and 50 per cent stocks-in-store situation, there is simply not enough grain volume in western Canada to support a modern operation at each point. A new elevator of 150,000-bushel capacity, would require an average handling of 750,000 bushels, over a 20-year period, just to pay back the costs and 8-1/2 per cent interest on the $230,000 borrowed capital investment.

Any business that generates an average pre-tax return of less than 10 per cent is in difficulty, and in the case of elevator companies this has been the situation for many years. Unless they have a permanent commitment to the grain business, such as your Company, private and public elevator companies refuse to live off depreciation or take the risks associated with large capital investments and rapidly rising operating costs. They eventually sell out. Such is the reason for the decline in the number of elevator companies in western Canada.

It is a long standing policy of your Company that competition ensures good service — no matter to whom a farmer delivers his grain. United Grain Growers intends to continue its program of expansion into major points that have large handlings and the need for competition, while serving its first obligation to present customers.

Deliveries by prairie farmers of all grains this past fiscal year totalled 920 million bushels, an increase of 150 million bushels over the previous record set in 1971. Shipments from country elevators were 997 million bushels, and are so close to the billion bushel mark any doubts about the ability of Canada's country system to handle such a volume of grain have been dispelled.

Even though an excellent yielding crop of 510 million bushels of wheat and 570 million bushels of barley were produced in 1971, the movement of grain was so great that estimated farm and commercial inventories of wheat and barley were only

*Stocks-in-store continued to trend downward after July 31 and by October only 32 million bushels were in store.

589 and 194 million bushels at the end of the crop year. The expected 1972 wheat and barley crops of 506 million and 484 million bushels will leave sharply reduced inventories in the nature of 360 million bushels of wheat and 175 million bushels of barley by July 31, 1973.

Despite well publicized 1973 sales, the price levels of grains showed little improvement until the massive 400-million bushel sale of wheat by the United States to the USSR. This promised to reduce world wheat inventories so much, that the Canadian Wheat Board was able to increase its export price, on No. 1 Canada Western basis Thunder Bay, by over 60 cents a bushel between mid-June and late September. However, the increases will be of little immediate benefit to prairie growers since the Wheat Board has already sold most of what it can move until May of 1973. This wheat was sold prior to the price recovery. Barley prices have shown some sympathy with wheat, but in this case, too, the Canadian Wheat Board is not currently booking shipments.

A good part of the wheat that was sold for delivery in the current year will come from commercial storage, and the balance will come from deliveries this year. This wheat was sold at prices based around $1.70 for the No. 1 grade at Thunder Bay. Prices in the neighborhood of $2.40 will not benefit farmers until new sales are made at these levels. The result is, the final payments for wheat sold in 1973, and even in 1974, will not reflect the full impact of the stronger prices — even if these prices continue.

The directors of your Company mention this as a caution to those farmers who are considering the option either of not delivering their wheat this crop year, or of delivering their wheat but by the use of a graded storage ticket delaying the selling of the wheat until the 1973-74 crop year. Due to the uncertainty of the pooling system used by the Canadian Wheat Board and the chance of a large-scale increase in world wheat inventories weakening prices, such decisions are risky.

Even though the Wheat Board and grain trade again did a creditable job in selling and moving grains to export positions, price levels for all grains showed little strength, this past year. For that reason, while the cash income situation of grain farmers improved for the second year in a row, net incomes were little improved this past year. Selling grain that has been stored in bins for several years gives a distorted picture of cash flow and net return.

An appreciation of the net income situation of farmers can be gained when one realizes that wheat and barley prices this past year were 25 cents lower than they were 10 years ago, and yet a farmer had to pay more for everything he bought. Even this net income impression is misleading if one ignores the return on investment — in most cases this past year, grain farmers received considerably less than 5 per cent return on investment, with no return for their labor or management.

One cannot criticize the Canadian Wheat Board for selling the grain offered it by farmers at the best competitive prices. It is the Board's job to sell grain and the government's to create policies and programs that will enhance farmers' incomes. However, we might ask how much credibility can really be placed on this continent's market intelligence system. The tremendous demand by the USSR for wheat was not foreseen by any of the market agencies in North America, proving that the erratic nature of world wheat demand and prices cannot be predicted by the specialist, much less by grain farmers. And we could be highly critical of a government that, outside of its $68 million "two-price wheat" program, provided little in the way of income support to prairie grain growers.

A turmoil of farm policies, muddied by political rhetoric and conflicting views of farm organizations, carried over from the previous year. A National Farm Products Marketing Council was finally established and this inward-looking legislation was

accompanied by conflicting government publicity advocating the need for expansion in world trade. Eastern Canadian farm interests exerted considerable influence over discrepancies in feed grain price levels and attempted to get government approval for "equal" prices of feed grains across the country. Several changes which the directors of your Company approved were also announced. These included proposed new grades for wheat and a decision to base freight for feed grain from Alberta on a Vancouver rather than a Thunder Bay basis.

The brightest note in the immediate future is that prairie grain growers can adopt a semblance of the production techniques they excelled at in the mid-1960s. Given stronger prices for wheat and barley, seeded acreage of these two crops will undoubtedly increase next year. The improved cash flow situation and price picture will lead to more use of purchased inputs in order to reduce the costs of production per bushel.

While they will be hearing plenty of cautionary preaching by the experts, it is unlikely prairie farmers will go back to the straight wheat economy of the last decade. Experience, for one thing, is a bitter teacher. Fortunately, too, the hog market promises to remain strong for at least a year and cattle prices are expected to remain at a good level for some years. Neither posed a good alternative to wheat in the mid-1960's. These factors, and the policy of the Canadian Wheat Board to sell what is offered at the best competitive prices, mitigate against another buildup in wheat inventory such as was experienced a few years ago.

The board of directors of your Company at this time note the resignation, on account of ill health, in July, of W. E. Donaldson, a director for eight years. In accordance with the bylaws of the Company, Mr. Sam Sych of Brownvale, Alberta, was duly appointed a director until the 1972 annual meeting.

Financial Statements

The Financial Statements as at July 31, 1972, were mailed to all shareholders before this meeting. The form and content of the statements were approved by the Company's auditors and, because the Company is organized under a Federal Charter, they comply with requirements of the Canada Corporations Act.

These statements are consolidated and include combined figures for United Grain Growers Limited and all of its wholly-owned subsidiary companies. They comprise of the Consolidated Balance Sheet, the Statement of Consolidated Earnings, Statement of Consolidated Retained Earnings, Consolidated Source and Use of Funds and the Auditors' Report to the Shareholders.

There are comparative figures for the previous year as well as Notes to the Financial Statements which contain additional information and explanatory comments on a number of items.

Consolidated Earnings

The Statement of Consolidated Earnings shows operating revenues for the year of $36,835,000 and net income from investments of $93,000. Operating, general and administrative expenses amounting to $32,260,000 include interest on long-term debt $976,000, remuneration of directors and officers $258,000 and provision for depreciation $2,212,000. This leaves earnings of $4,668,000 out of which the undernoted provisions are made.

Provision for patronage dividend on grain deliveries during the past fiscal year is $1,350,000 and provision for taxes on income is $1,770,000. The tax provision includes $520,000 for income taxes deferred.

Net earnings from operations of $1,548,000 together with net gain on property disposals of $384,000 bring net earnings for the year up to $1,932,000, which amount is carried to Consolidated Retained Earnings.

Consolidated Retained Earnings

Consolidated Retained Earnings at the beginning of the fiscal year amounted to $18,111,000. The addition of net earnings brings the total to $20,043,000. Deductions for the dividend of 6 per cent declared on Class "A" shares, amounting to $391,000, and the dividend provision of 6 per cent amounting to $17,000 on Class "B" shares, leaves Consolidated Retained Earnings of $19,635,000. The Class "B" share dividend is accumulated and declared payable at the end of four years when the amount is more substantial.

Consolidated Source and Use of Funds

The Statement of Consolidated Source and Use of Funds shows that the main sources of working capital are from operations of $5,630,000 and issue of promissory notes of $3,127,000.

Funds were used during the year for capital expenditures for properties of $4,135,000 after deduction of proceeds on property disposals, redemption of long-term promissory notes of $3,123,000, patronage dividend liabilities of $652,000 and provision for shareholders' dividends of $408,000.

The net increase in working capital for the year amounts to $424,000 (1971 — $2,572,000) and brings the total to $11,874,000 (1971—$11,450,000) at the end of the fiscal year. The working capital position of the Company is very satisfactory. It indicates financial strength and is an important factor in the Company's ability to borrow on favorable terms the large sums of money that are required from time to time.

Consolidated Balance Sheet

As at July 31, 1972

Assets

Cash $381,000

(1971—$318,000). This represents mainly cash in transit to banks and standing deposits which are maintained at the request of banks as part of borrowing arrangements. Also included are petty cash funds in different offices.

Marketable Securities, at Cost ..$722,000

(1971—$1,062,000). This item represents the cost of preferred and common shares of various Canadian companies. The market value of the securities as at July 31, 1972 was $992,000 (1971 — $1,206,000).

Accounts and Accruals Receivable $10,650,000

(1971—$9,204,000). Included here are accounts owing by customers for farm supplies, feeds and seeds. An allowance of $355,000 is carried against possible uncollectable accounts and is $40,000 greater than a year ago. The item also includes accrued charges on grain carried in country elevators for account of The Canadian Wheat Board, and accrued storage charges on grain in terminal elevators.

Inventories $57,015,000

(1971—$70,341,000). Grain inventories of $42,998,000 (1971—$58,952,000) consist of wheat, oats and barley in store in country elevators or in transit for the account of The Canadian Wheat Board. They are valued on the basis of purchase prices set by the Board. When such grain is purchased, the Company advances the initial payment for which it will be reimbursed by The Canadian Wheat Board when the grain is delivered at terminal elevators.

Other grains, amounting to $10,257,000 (1971—$8,012,000) include rye, flaxseed and rapeseed, bought for the Company's own account. They are valued on the basis of market quotations and are fully hedged.

The inventory valuations include handling costs incurred on grain receipts at country elevators, against which handling charges on Wheat Board grain will be recovered on delivery at terminal destinations.

The value of grain inventory is substantially less than a year ago, mainly because of lower wheat stocks in country elevators.

The remainder of the Inventories of $3,760,000 (1971—$3,377,000) include feeds, seeds, fertilizers, agricultural chemicals and twine. Stocks of these are carried at many locations to be available as required.

Prepaid Expenses $1,104,000

(1971—$910,000). This item represents payments chargeable to operations after the end of the fiscal year. Included therein are insurance premiums, which are paid in advance for varying periods of time, and construction supplies and repair parts which are carried in stock for future needs.

Current Assets $69,872,000

(1971—$81,835,000). This figure is the total of the foregoing items and is to be compared with the total current liabilities of $57,998,000 shown on the opposite side of the Balance Sheet. The difference of $11,874,000 is working capital (1971—$11,450,000).

Loans Receivable, Secured $333,000

(1971—$342,000). This figure represents repayable advances made to enable travelling employees at country locations to purchase homes. The loans are secured by mortgages or agreements for sale.

Other Investments $275,000

(1971—$250,000). This item includes 25 per cent of the share equity of XCAN Grain Ltd., which amounts to $50,000 and a loan to that company of $225,000 repayable on July 31, 1975. It also includes investment in shares of sundry co-operatives and memberships in various exchanges and trade associations which are carried at a nominal value of $1.

Properties, at Cost $67,671,000

(1971—$63,658,000). This amount covers the cost of properties owned at date of Balance Sheet. The increase of $4,013,000 mainly includes the cost of improvements and additions of $1,800,000 to the country properties, expenditure of $1,350,000 on installation of pollution control and cleaning equipment at the Vancouver terminal and purchase of printing plant equipment at a cost of $530,000.

Net increase in value of the properties for the past ten years was $28,000,000, an average of $2,800,000 annually.

Accumulated Depreciation $28,774,000

(1971—$27,112,000). Provision is made out of earnings each year to add to this amount a definite percentage of the cost of each building, or equipment, until such cost has been recovered. Percentages are uniform from year to year, but vary from one class of physical asset to another. The depreciation provision for the year is shown in the Statement of Consolidated Earnings in the amount of $2,212,000 (1971—$2,162,000).

This accumulated depreciation figure relates to properties owned as at July 31, 1972. When properties are disposed of, the relevant accumulated depreciation is deducted from this item.

Total Assets $109,377,000

(1971—$118,973,000). This total is less than a year ago mainly because of the lower grain inventory values.

Liabilities

Bank Loans, Secured $33,150,000

(1971—$40,250,000). These loans are shared among four of Canada's largest chartered banks on a basis agreed to when they established the Company's line of credit for the fiscal year. They are secured by pledge of specific assets including marketable securities, accounts receivable, and inventories including stocks of grain carried for account of The Canadian Wheat Board in country elevators and en route to terminals. Under The Canadian Wheat Board Act and by contract, the Company is allowed to pledge Board grains as security for the purpose of borrowing from a chartered bank. Such borrowing provides funds for the initial payment on wheat, oats and barley for account of The Canadian Wheat Board, which reimburses the Company when the grain is delivered to a terminal elevator. When the year began, interest on these bank loans was at the rate of 6-1/2 per cent per annum and at the year end it was 6 per cent.

As noted under the heading "Inventories," the values of grain inventories were substantially lower in 1972 and this chiefly accounts for the decrease in bank loans.

Other Loans $3,131,000

(1971—$8,508,000). These include loans obtained in the short-term money market against the Company's unsecured promissory notes. Their volume fluctuates with variations in the amount of money offered in that market. Lenders are mainly financial institutions and business firms who have money to loan for a brief period of time. Interest rates vary frequently and are usually lower than the bank rate.

The Company is well and favorably known in the short-term money market, where its notes are readily placed by investment brokers who specialize in such transactions.

This item also includes a number of demand loans from customers of the Company.

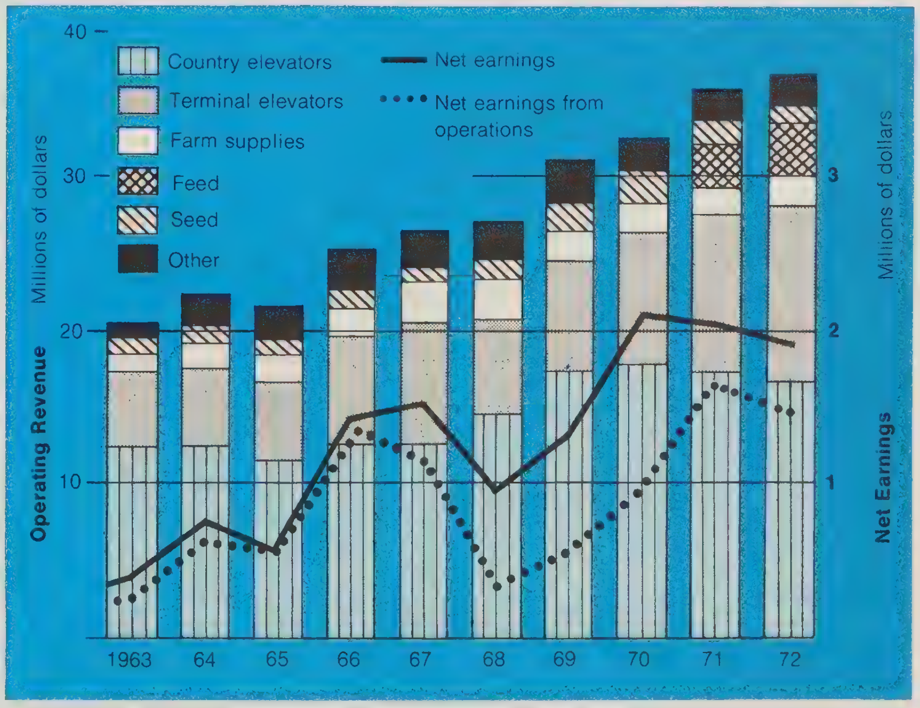
Unpresented Cheques and Grain Cash Purchase Tickets $12,043,000

(1971—$13,193,000). This item includes cheques, coupons and grain cash tickets in transit to banks as well as those which, for one reason or another, have not yet been presented for payment. The amount tends to increase toward the end of the crop year when customers attempt to deliver maximum quantities of grain before delivery quotas expire and may be too busy to present the tickets for payment.

Accounts and Accruals Payable $5,643,000

(1971—$4,880,000). This item includes accounts shortly to become payable for goods and merchandise carried in the inventories and services already received prior to the close of the fiscal

Operating Revenue by Product Group and Net Earnings



year. It also includes interest accrued on current borrowings and on long-term debt.

Income and Other Taxes Accrued $43,000

(1971—$873,000). These are taxes payable after the close of the year and which were charged to operations of the past year. The decrease is due to the settlement of income tax obligations for the past fiscal year prior to the date of the Balance Sheet.

Dividend to Shareholders Payable September 1, 1972 .... $391,000

(1971—$391,000). This amount represents 6 per cent on the paid-up value of Class "A" shares, declared before the end of the fiscal year but payable thereafter. It is made up of the preferential dividend of 5 per cent to which holders of such shares are entitled to the extent earned, and also an additional one per cent which has now been declared for seven successive years.

Provision has been made elsewhere for the dividend on Class "B" membership shares, but declaration has been deferred in accordance with the practice of accumulating such amounts for payment every fourth year, as was last done in 1970.

Current Maturities of Long-Term Debt $3,597,000

(1971—$2,290,000). Amounts due within twelve months after the date of the Balance Sheet are treated as current liabilities. Consequently, this item includes such payments to be made on principal of long-term debt.

This amount includes patronage dividend obligations of $514,000, and promissory notes and instalment of purchase agreement of $3,083,000.

Total Current Liabilities $57,998,000

(1971—$70,385,000). The total of the foregoing items has already been compared with the larger amount of current assets in order to establish the amount of working capital.

Promissory Notes $6,657,000

(1971—$6,535,000). These are unsecured promissory notes maturing at various dates more than twelve months from date of Balance Sheet. Notes aggregating $3,000,000 were issued during the past fiscal year to financial institutions. The loans are repayable in five equal annual instalments commencing August 15, 1973.

The outstanding notes include $649,000 in loans from customers, at varying rates of interest depending upon time of issue and length of term. Interest on such loans is covered by coupons cashable at intervals of six months.

Other notes included herein to the amount of $2,508,000 were issued in prior years for longer periods to pay for properties purchased. These mature annually in the amount of $486,000 in 1974 and 1975, $445,000 in 1976, $287,000 from 1977 to 1979 inclusive and $117,000 in 1980 and 1981.

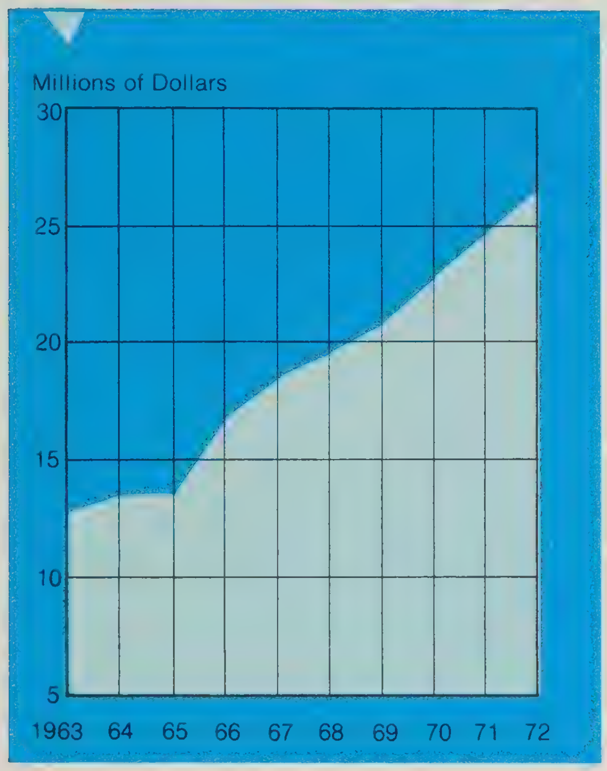
Purchase Agreement $2,590,000

(1971—$2,708,000). This relates to purchase, as of August 1, 1965, of the terminal elevator at Vancouver and payments fall due in annual instalments of $118,000 in each of the fiscal years 1974 to 1995.

Patronage Dividends $8,660,000

(1971—$7,962,000). This item includes the amount of $1,350,000 provided from earnings for patronage dividend on grain receipts of the year just ended. It includes credits bearing interest at 6 per cent per annum issued against grain receipts of the fiscal year ended in 1971, payable May 15, 1982, and credits bearing interest at 4 per cent per annum issued against grain receipts of fiscal years ended in 1967 to 1970, inclusive, payable fifteen years from date of issue,

Shareholders' Equity



less amounts redeemed or applied on purchase of Class "A" shares. It also includes residual principal amount of credits and debentures issued for patronage dividends of earlier years, to be redeemed in varying amounts annually on May 15 until 1982. These bear interest at 3 per cent per annum, accrual of which is included here.

Deferred Taxes on Income......$7,040,000

(1971—$6,477,000). The Income Tax Regulations allow a faster write-off of certain depreciable properties than the depreciation charges that are considered to be adequate for accounting purposes. The depreciation provision is calculated on a consistent and uniform basis from year to year, reflecting a reasonable annual charge against income for the physical use over the expected life of the depreciable properties employed in the company's operations.

Deferred taxes, therefore, arise from the Company's practice of claiming for taxation purposes capital cost allowances in excess of the depreciation annually provided. This procedure reduces the amount of tax payable now and provides annually for income taxes which may become due in future years when capital cost allowances then deductible for tax purposes will be correspondingly less.

This practice is recommended by the accounting profession in Canada and has the approval of the shareholders' auditors.

Capital Stock $6,797,000

(1971—$6,795,000). The paid-up value of Class "A" shares outstanding at July 31, 1972 is $6,517,000 and the par value of Class "B" shares outstanding is $280,000.

(Additional comments on Capital Stock are made in the "General Information" section of this report.)

Retained Earnings..................$19,635,000

(1971—$18,111,000). This item includes $3,250,000 appropriated in past years for unusual eventualities or special contingencies, and $3,000,000 for general reserve.

Shareholders' Equity $26,432,000

(1971—$24,906,000). This total is the amount by which the Company's total assets exceed its liabilities.

Total $109,377,000

(1971—$118,973,000). This amount, the sum of Liabilities and Shareholders' Equity, is the same as Total Assets recorded opposite on the Balance Sheet.

The Elevator System

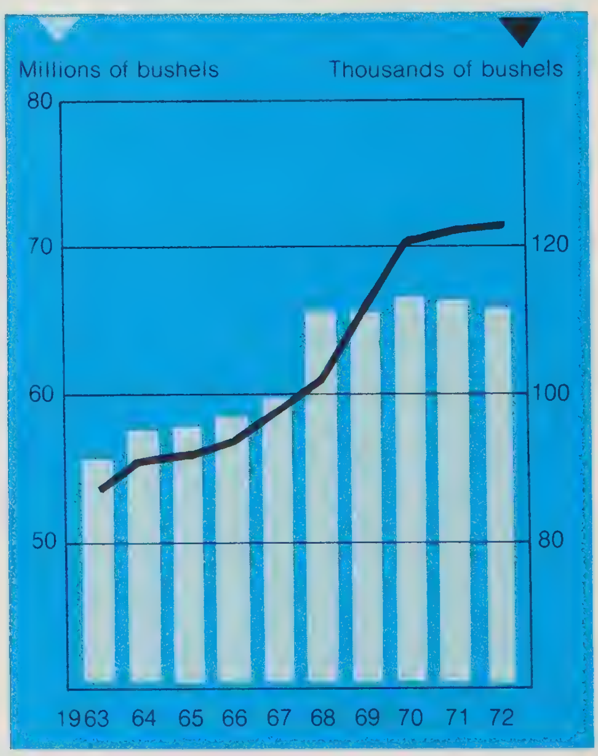
The main business of United Grain Growers is to handle and store grain produced in western Canada. This grain is received by truck in country elevators and assembled into carload lots for rail shipment. Terminal elevators, after receiving the carload lots, assemble the grain into cargo quantities for shipment by vessel.

Since elevators perform an essential function in the movement of grain, they are considered a public utility and have been so recognized in the statutory declaration that Canadian elevators are works for the general advantage of Canada. As such, they are required by law to give service at uniform and regulated charges to all customers.

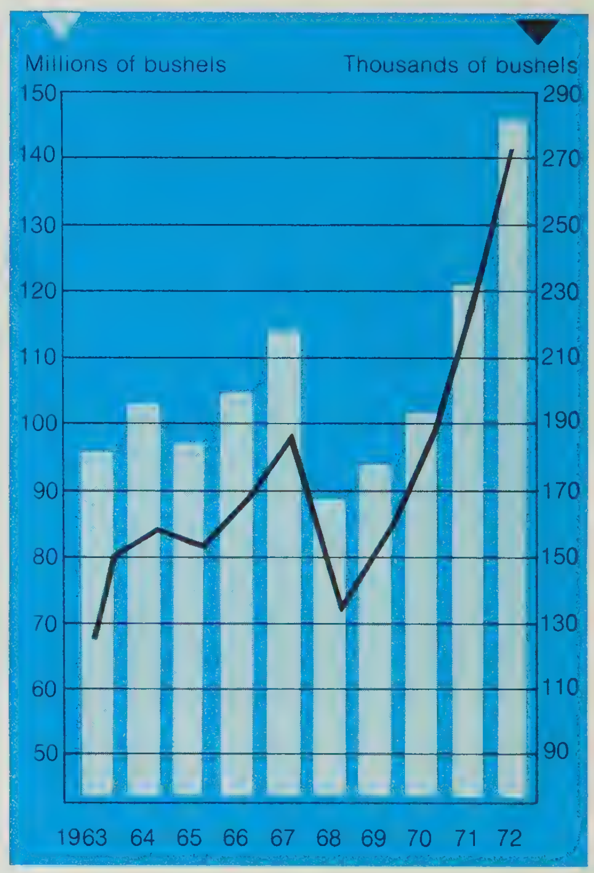
Country elevators are premises where your Company acts as agent for the Canadian Wheat Board, and accepts and pays the initial price for wheat, oats and barley to be sold by the Board. Elevators are also merchandising premises where your Company buys and sells rapeseed, flax, rye and certain contract crops on its own account and keeps a stock in trade.

Another aspect of the elevator business is that of elevating and storing grain under tariff charges authorized by the Canadian Grain Commission. A limited amount of the grain received in country elevators and most of the grain handled by terminal elevators falls in this category. At the terminals, United Grain Growers owns some grain and screenings in its capacity as a grain merchant.

Country Grain Storage Capacity
Capacity per Elevator Manager



Total Country Grain Handling
Handling per Elevator Manager



The grain handling facilities are comprised of 768 elevators at 499 points in the prairies, three terminal elevators at Thunder Bay and one at Vancouver.

Country Elevators. Your Company's elevators are located at 96 points in Manitoba, 196 in Saskatchewan, 203 in Alberta, three in British Columbia and one in Ontario.*

The total capacity of the U.G.G. country system, as licensed by the Canadian Grain Commission, is 64 million bushels.

Capital expenditures for improvements and net additions to country facilities during

*Other country structures include 1,059 annexes, 18 feed mills, 7 seed cleaning plants, a number of seed warehouses and sheds. There are also 503 dwellings for elevator managers of which your Company owns 182 and leases 321 from an investment firm.

the past year amounted to just over $2 million. Repairs cost $1.2 million. Twenty-five of the older elevators were overhauled at costs ranging from $5,000 to $55,000. During the year, six elevators were bought and six elevators were sold, mainly under rationalization exchange programs with other companies. Two new elevators and three new grain storage annexes were built.

Even though $2 million capital for construction was spent this past fiscal year, this was well below what was needed for the changes and improvements in your aging elevator system. It can be easily seen that with construction costs up over 30 per cent this past year, capital is a limiting resource; a new elevator complex of 110,000 bushels costs $195,000, a major overhaul costs $60,000 and a new 100,000-bushel annex costs almost $100,000. Looking at it another way, $2 million would only replace 9 elevators per year or 1.5 per cent of the manager-operated units. In a system of 528 manager-operated units, and not considering inflation, it would take 60 years to replace the system, and in that time most of the network could be dilapidated.

The destiny of your Company's country elevator network, as is the case with all grain companies, is inexorably tied to two basic economic elements: The revenue generating potential of each unit and the costs of maintaining and operating each unit.

The breakdown of the costs of operating a country elevator during 1971-72, a year of record grain receipts, shows that costs per bushel were 12.19 cents.

Earnings from handlings and storage, and allowing for terminal earnings of 2 cents a bushel, were not large enough to pay for maintaining the present country elevator system.

The costs of construction, and for practical purposes, fixed storage and handling tariffs, necessitate a very detailed study before major renovations or new construction can be carried out. The budgets show such a planning situation for a point presently under consideration in Saskatchewan.*

*Appendix A — Page 44

1971-72 ELEVATOR COSTS
Per Bushel Handled

DIRECT OPERATING EXPENSES	Per Bushel (cents)	%
Salaries, including assistant managers, casual help, overtime, bonuses and benefits	3.30	
Moving, travel, meetings	.05	
Repairs	.67	
Inspections	.01	
Car doors, liners, etc.	.01	
Annex unloading	.06	
Insurance (grain and merchandise)	.18	
Inspections and bond	.03	
Heat and power and water	.26	
Postage	.04	
Phone, wires, telex	.07	
Exchange	.13	
Debts and legal fees	.01	
Interest	1.90	
Stationery and supplies	.03	
Miscellaneous	.02	
	6.77	56%
DIRECT FIXED EXPENSES		
Property rentals	.15	
Building insurance	.17	
Taxes	.86	
Interest on fixed assets	.85	
Depreciation	.87	
	2.90	24%
ADMINISTRATION COSTS	1.87	15%
TOTAL COST	11.54	
Interest on own working capital	.65	
ADJUSTED TOTAL COST	12.19	5%

No longer are *average* benchmarks adequate in determining the merits of new construction. Three years ago, 300,000 bushels was considered an adequate handle, when related to the existing tariffs, storage policy and construction costs. A year ago, 500,000 bushels was considered an adequate handling to warrant new construction; now, a handle of 700,000 bushels is required within a reasonable time after the

construction of a new facility. In western Canada, only 52 per cent of the *stations* where your Company is located exceeded *a 500,000-bushel* handling during 1971-72.

The country system of grain companies and the railroads have been criticized by theorists and civil servant "businessmen" for lacking the ability to move grain out of the prairies in the quantities needed. Yet this year through organization of the trade, it moved a billion bushels of grain and did it on schedule.

Grain companies have been censured by these same people for being too slow to "rationalize." Yet since 1965, the number of manager-units has decreased 22 per cent. In fact, there are now less manager-units than the Grains Group projected there would be by 1975. Unfortunately, the use of the expression "4,567 licensed elevators in western Canada" is very misleading, since there are only 3,240 manager-units — in other words, there are 1.4 elevators per manager.

Extensive trading has been the means used to consolidate and rationalize. Ten years ago, your Company employed 647 elevator managers who operated with an average capacity-per-manager of 89,000 bushels. On July 31, 1972, United Grain Growers employed 528 managers, who operated elevators with an average capacity of 121,000 bushels. During this interval, your Company added 60 elevator managers from the purchase of the McCabe Grain Company, so that the total reduction in this period was 179. The average handling per manager-unit this past year was 273,000 bushels.

As the directors of United Grain Growers stated last year, there is no doubt that the elevator system will continue to shrink and the choice remains whether it will be done through government dictum or free enterprise.

The much-heralded report of the Grains Group turned out to be more of an academic exercise than practical help to the industry. The study methods themselves were not so much at fault as were the restricted boundaries of the studies: Completely neglected in suggested alternative systems were earnings to pay for the costs of new construction and availability of capital.

The report suggested three alternative elevator systems to the present one: A 389 high-throughput system, a system with 22 inland terminals and 356 satellite elevators, and a system of 80 to 100 inland terminals without country elevators. The alternatives were suggested since the Grains Group researchers forecast costs per bushel for moving grain from country to terminal positions, if the present system is retained, would increase from 29 cents a bushel at present to 47 cents by 1980. However, ignored was the fact that a paid-for present system able to move a billion bushels of grain from the prairies was in existence — not dissimilar to a farmer scrapping perfectly good wooden granaries in order to install steel ones. Not noticed in the Grains Group report were undeniable increases in farmers' trucking costs, road costs, municipal tax burdens, and the effects upon smaller villages in western Canada.

Representatives of United Grain Growers, along with other members of the trade and farm organizations, are presently analyzing the Grains Group report under the auspices of the Canada Grains Council. It is expected a mutually-accepted proposal for the system of the future, allowing for the vested interests of the different groups, will be worked out.

Your Company has resisted tariff increases for the past two years for two main reasons: Because of depressed farmers' income and because increased tariffs by themselves will not make any significant contribution to the solution of the problem.

There is no acceptable level of tariffs that will support the country elevator system in its present form for even the short-term future. A substantial reduction in the number of operating elevators is the only answer if the cost of handling grain is to be held at a level that farm people can afford.

It should be emphasized, also, that only the record handling of the past two years made it possible to hold handling tariffs

at current levels. Even these levels of handlings, which cannot be maintained indefinitely, are not adequate to cope with the costs projected for the future.

Meanwhile your Company will continue to give priority in its repair and capital improvement program to elevators at those points which have larger handlings.

Larger, more efficient plants, will be constructed to allow increased handlings per manager and provide better service to customers. The plants being designed and constructed at present by United Grain Growers, with minor adaptations, have the ability to handle from 1.5 to 2 million bushels annually. A twin-annex elevator, such as the one depicted on the cover of this report, can be built for less than $500,000 and has the ability to handle 3 million bushels a year.* This plant costs $700,000 less than the terminal with comparable handlings proposed by the Grains Group.

It is these types of country elevators that your Company sees as the practical answer to future grain marketing needs. Such a system of new elevators combined with a renovated present system, should limit the distance farmers have to haul their grain to something reasonable, and it should provide adequate service to the farmer as well as allow for rapid grain movement to export positions.

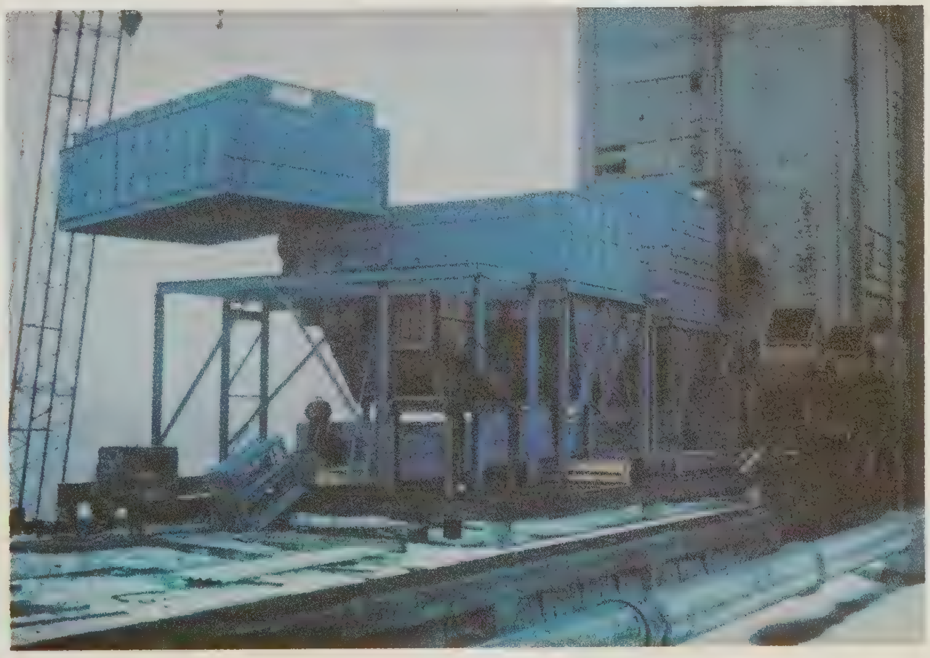
Terminal Elevators. Your Company's terminal at Vancouver has a capacity of 3,645,000 bushels. At Thunder Bay, United Grain Growers owns three terminals: Elevator A with a capacity of 8,250,000 bushels, Elevator M with a capacity of 3,250,000 bushels and the inoperative Thunder Bay Elevator with a capacity of 1,140,000 bushels.

Most of the grain delivered by customers to your country elevators flows to domestic and export markets through these terminals.

*Appendix B — Page 45

A Uniflow screenings reclaim system is part of the new cleaning operation installed in Terminal M Elevator this past year. With it, screenings and other grain by-products are processed into different quality categories.

The major capital expenditure at the Vancouver terminal begun this past year was installation of the $1 million air pollution control system. Here part of the system is being hoisted in place on top of the terminal.



Smaller amounts are shipped through Churchill and Prince Rupert, and some is consigned to mills or malting plants in the prairie provinces.

Extensive changes, particularly in cleaning facilities, allowed your terminals to handle a record 130 million bushels of grain this past year. However, these changes were expensive.

The $1 million air pollution control system was started this past year at the Vancouver terminal but, while it will be an effective dust control mechanism, it will add nothing to the productivity of the plant. Another $400,000 was committed to building an extension to the workhouse and installing new cleaners. The cleaners will more than double the ability of the terminal to clean coarse grains, which have been a problem ever since heavy volumes have been exported through the West Coast.

Breakdowns of the dumper at your Vancouver terminal persistently slowed unloading operations this past year, so the dumper was converted to hydraulic operation. The modification makes it more reliable than dumping which depends on mechanical drives. A new pit was built to make it easier to handle hopper cars.

A capital project under way during the current year is new cleaners for oilseeds, which will double the throughput.

Your Terminal A at Thunder Bay is among the most modern at the Lakehead and is in good condition. The main capital improvement at the terminal this past year was the installation of automatic scales. These not only tend to reduce labor costs but significantly increase the rate of loading to vessels.

Still needed at Terminal A are improvements to speed up the unloading of hopper cars and increase the shipping capacity to further step up the throughput of the plant. At present, two shifts receive, three shifts clean, and one shift ships out. Wider belts or deeper-valley belts and other conversions could increase throughput of the terminal 20 per cent and, in particular, allow faster loading of vessels.

Continued increases in productivity at Terminal M were recorded. A screenings-reclaim system was installed in this elevator and this enables your Company to more easily process different qualities of grain by-products. A new holding track added to the plant's ability to store boxcars for unloading.

Your old Thunder Bay Terminal has not been licensed for three years, since the condition of the workhouse is such that it is not worth repairing. Equipment from the workhouse was removed this past year. However, the consulting engineers' report indicates that it may be feasible to use the tanks of Thunder Bay as a storage annex for Terminal M. The tanks have a capacity of 1,140,000 bushels and could be connected to Terminal M by a belt or drag conveyor.

In the near future, air pollution equipment will have to be installed at the Thunder Bay terminals. United Grain Growers has been advised that the deadline is 1975. The cost of such a project is expected to be about $3 million.

Organized labor continues to add to the cost of operating your terminals. Even though snow blockage and wet trackbeds played their part in slowing up export movement through Vancouver, costs of delays, due to the longshoremen's strike, were much greater. The Vancouver collective agreement with your terminal employees expired November 30, 1971, and terms of wages and benefits are now settled. The Thunder Bay collective agreement expires December 31, 1972, and negotiations towards a new agreement have started.

Farm Supply Operations

After sustaining a loss for three successive years, the farm supply operations of your Company returned a modest net profit this past fiscal year. For elevators with both a high and low grain handle, farm supply sales made a substantial contribution to help cover costs.

Unlike 1971, the fertilizer market was relatively stable and, combined with a sales increase of 11 per cent, was the chief reason for improved earnings in farm supply operations. However, better inventory control and a reduction in personnel due to new accounting techniques reduced both operating and fixed costs and enhanced the profit picture.

Fertilizers. Sales of fertilizer this past year were third only to sales made during 1967 and 1968. Although the usage in Alberta did not increase significantly, there were sizeable increases in Saskatchewan and Manitoba, both of which had severe declines during 1969 and 1970.

Again this year, United Grain Growers had access to large amounts of 21-0-0 and it led the industry in sales. This fertilizer, which also contains 24 per cent sulphur at no extra cost, is a by-product of nickel refining.

There has been a phenomenal increase in the use of anhydrous ammonia in Alberta and Manitoba. In Alberta, 41 per cent of the actual nitrogen used was in the form of this high-pressure gas. It contains 82 per cent nitrogen, and is the cheapest form of nitrogen available.

Your Company has quite large anhydrous ammonia operations at Carstairs, Alberta, and Fairview, Manitoba. Additional units have been introduced in the Cayley-High River area in Alberta, and in the Boissevain-Killarney and Treherne-Rathwell areas in Manitoba.

In order to reduce application costs, United Grain Growers is now selling application kits and anhydrous ammonia nurse tanks. The application kit is a conversion unit that fits on a cultivator or discer and allows a farmer to either fertilize

Ammonium sulphate (21-0-0) in bulk storage at Sherritt Gordon fertilizer plant. United Grain Growers had access to this huge supply and led the industry in sales. This fertilizer also contains 24 per cent sulphur, an essential nutrient in some prairie soils.

Anhydrous ammonia, the lowest-priced form of nitrogen, is injected into the soil behind the cultivator shovels. Applying nitrogen this way lets the farmer spring cultivate, apply fertilizer and prepare a seedbed all in one operation. Over 40 per cent of the nitrogen used in Alberta is from anhydrous ammonia.

in the fall or fertilize and prepare his seedbed in one operation in the spring. The nurse tanks allow a farmer to fill up from the Company's storage tanks and thereby realize savings in cost. The price of a nurse tank, caddy wagon and conversion kit is $1,700 to $2,000.

Anhydrous ammonia with its extremely short season and high service requirements, has the highest direct expense of all forms of fertilizer. This is why the costs of application add greatly to the price of anhydrous ammonia. It is also for this reason that your Company is interested in farmers applying their own anhydrous ammonia.

Other Farm Supplies. Sales of Weedone herbicides increased substantially over the year previous. Lady's thumb, cow cockle and green foxtail continued to be the worst weeds from the standpoint of spreading, even though wild oats was considered the most serious weed.

The spring demand for Avadex was heavier than expected and a shortage of supplies developed at some points. Carbyne usage was up in Alberta, but because of poor spraying weather, many farmers in Saskatchewan and Manitoba were not able to use the product. Sales of Treflan, for broad- and grassy-leaf weeds in sunflowers and rape, also increased this past year.

Your Company is now putting considerable stress on Avadex BW Granular, as an effective means of controlling wild oats through application in the fall. The product is applied by fitting a discer fertilizer attachment, or a dribble broadcast applicator, with specially designed baffles in order to apply the granules at a low rate.

Sales of twine this year were good. Unfortunately, United Grain Growers will no longer

United Grain Growers added another customer-service this fall: Avadex application equipment to apply Avadex granules for wild oat control. The Spierco is a dribble fertilizer spreader with special micro-product baffles added to uniformly spread the fine granules at a low rate.

This past fiscal year marked the 25th year U.G.G. has been the exclusive distributor of Weedone products. These quality herbicides are manufactured by Allied Chemical Services under license from Amchem, the largest herbicide company in the world and the originators of 2,4-D. The top selling lines are Weedar 80, Weedar MCPA Ester 80 and Weedone 100.

be able to distribute domestic twine since the last major twine manufacturer in Canada has gone out of business. Your Company has been test marketing the cheaper foreign twines from different mills for some years, and is now able to offer customers a good quality product.

Sales of other products remained fairly stable under the new Personal Sales Account system introduced August 1, 1971. Under this new inventory control method, accounting costs are reduced because your Company does not have to keep track of inventory at all elevators. Rather, all farm supplies except fertilizer, herbicides and twine, are billed directly to the elevator manager. He is operating on a modified dealer basis and he is responsible for inventory. The PSA system allows your Company to handle many low-cost items that would have been priced out of the market under the old system of inventory control.

Because of the improved cash situation of many farmers and the stronger grain price outlook, United Grain Growers expects an all-time record volume of farm supply sales in the current year. Continuing stress will be placed on reductions in costs in order to allow increased market penetration.

If the sales picture turns out as projected, there will be serious transportation and distribution problems with fertilizer. Unique among industries, approximately three-quarters of all tonnage of fertilizer is moved dur-

Over 30 company trucks deliver Unifeed livestock and poultry feeds to farm customers. The trucks can unload supplements into elevated bins for on-the-farm mixing with grain and silage, or a complete ration can easily be unloaded into fence-line feeders or self-feeders. A number of Unifeed trucks are fitted with compartments so more than one type of feed can be delivered at one time. More Unifeed than any other brand is sold in Alberta and it is a major feed in Saskatchewan.

ing the three spring months. This puts a great stress on transportation and handling facilities. Unfortunately, customers have never shown much inclination to buy and accept delivery of fertilizer during the fall and winter months.

Feed Operations

Through its feed division and wholly-owned subsidiary, United Feeds Limited, United Grain Growers is now a major supplier of processed feeds in Western Canada.

With the purchase of the Yorkton feed mill this last fiscal year, it now owns 18 mills that manufacture and sell the Unifeed brand. Your Company distributes more feed than any other company in Alberta and is a major competitor in Saskatchewan. In Manitoba, a franchised dealer at Dauphin distributes the Unifeed brand in most of the western part of the province and another feed company manufactures feed for sales through elevators in the rest of the province.

The volume of feed sold and processed last year increased 17 per cent over the year previous, though the increase in net earnings was not proportionate. Part of the reason for this was the result of the Olds feed mill being destroyed by an explosion. Customers in the Olds area are being served from other mills until the new mill presently under construction is completed, and high trucking costs resulted in very low margins.

The nature of the feed business requires a somewhat different kind of management. The grain business operates under fixed tariffs and a comparative inelastic change in customer business, and demands strict attention to maintaining low operating and fixed costs. The feed business, while cost control is important, is much more responsive to aggressive marketing programs in obtaining new customers.

The future of your feed business depends a great deal on how well your Company can service customers, not only with quality feeds, but in all phases that help the customer grow and make a reasonable profit. A good credit program, geared to each man's potential, on-time feed deliveries, and technical advice are keys.

Costs of trucking feeds are a constant concern. The growth in bulk feeds compared to bagged feeds, makes it cheaper and easier for many customers to get their feed delivered rather than pick it up themselves. No profit is made on trucking. A mill with a growing business is constantly adding new or larger trucks, which, once purchased, become a fixed cost that must be paid for with new business.

Your Company's feed operation forms a natural complement to its grain operation. Grain produced on prairie farms flows to market through a two-way funnel: Either to the elevator or to livestock and poultry. The fortunes of both operations will fluctuate according to the sales and prices of grain, though usually in opposite directions. The result leads to stability in net earnings.

United Grain Growers expanded its contracting for certain special crops in order to penetrate markets formerly held by Federal Grain Limited. Some of these crops were: yellow mustard (below), sunflowers (right), and buckwheat (far right).

Contrary to some people's expectations, higher grain prices should result in better earnings for your feed operation. Customers will be more sensitive to exact rations that ensure the best feed conversion and expend the least amount of energy from grains. It is also good for the customer since cheap feed grains lead to cheap meat.

Strong prices for both hogs and cattle appear to lie ahead.

The dismal hog prices of 1970 and 1971, as a result of overproduction in the United States, were even more extreme in western Canada. Since the recovery, farrowings are still down in Canada and the U.S. estimates show farrowings will be up 7 per cent by February, 1973. Consequently, relatively strong prices are predicted for most, if not all, of 1973.

The reduction of cow numbers during the late 1960s, both in Canada and the United States, and increased consumption of beef is expected to result in a large increase in cow numbers by 1975. However, it is expected production until then will barely be able to keep up with demand and prices will remain quite strong.

Seed Operations

The sharp decline in demand for seed barley, oats and rape last spring, and the 10 per cent import duty on forage seed sales to the United States were the main factors responsible for the small operating loss incurred in seed operations this past year.

United Grain Growers sells seed in Canada and overseas to some thirty countries. Most of the forage seed is exported. Your Company owns major plants at Edmonton and Winnipeg, and smaller plants in other parts of western Canada. The eastern region does most of its business in domestic grain and forage seeds, while the western region depends mainly on export markets.

The bulk of the seed is bought on the open market, on the basis of either an outright or initial price. It is then processed and stored in expectation of later demand that will allow a reasonable margin. Such is frequently not the case due to weather, economic or political conditions. Since there is a lack of proper hedging facilities, it leaves both the primary producer and your Company vulnerable to fluctuating prices.

The operations of your Company in the creeping red fescue market, and also in the alsike, altaswede and sweet clover markets, were impaired by the 10 per cent U.S. surtax. The surtax, which went into effect August 15, 1971, acted as an umbrella for the U.S. trade

and it was impossible for your Company to compete effectively on the U.S. forage seed market at a profitable margin.

At the beginning of the season it was hoped that the creeping red fescue market would have been able to absorb the 10 per cent penalty, but as the year progressed it was discovered that the carry-over stocks of growers were considerably in excess of earlier estimates. Word of the large carry-over plus the 10 per cent surtax demoralized the market and your Company was unable to dispose of its stocks without sustaining sizeable losses. The situation was similar with clovers sold to the U.S. market.

The impact of the federal government's forage diversion scheme resulted in good domestic sales of forage seeds; otherwise, the picture would have been bleaker.

Hybrid wheat for seed being combined. Hybrid seed is harvested separately from border rows, which contain pollen for crossing with sterile female plants that produce the hybrid seed. United Grain Growers and DeKalb AgResearch, Inc. have a business arrangement to breed and market hybrid spring and winter wheats in Canada.

The current market for clovers appears strong, particularly for altaswede as a result of a short red clover crop in the U.S. Supplies of both brome and meadow fescue crops are considerably shorter than a year ago, and prices are higher. The removal of the 10 per cent U.S. surtax ensures your Company will regain a good part of its U.S. market.

Durum sales picked up considerably this past year. For the first time your Company exported Hercules to South America and it is hoped there will be repeat business in the current year. Eastern processors have also been buying fair quantities of durum for making puffed wheat.

Sales of cereal grains were down considerably from a year ago. Wheat sales were good, but the domestic market for oats, barley and rape was poor chiefly as a result of distress-price sales by certain local processors. Random oats was in very strong demand by U.S. buyers and two-thirds of your Company's supply was sold to the U.S.

The package goods business of your Company increased 22 per cent this past fiscal year. Food products are either packaged under the U.G.G. Canwest brand or for other companies under private label.

For some years, United Grain Growers has contracted for some seed acreage under the seed multiplication division of the Canadian Seed Trade Association. This is done for certain forage crops, such as tall wheatgrass, slender wheatgrass, and Russian wild ryegrass, which are grown on such a limited acreage that poor weather could increase prices beyond normal limits and lose markets. Forage yields are more sensitive than grain crops to adverse weather, an instance being this year's meadow fescue crop where spring heat reduced yields from the normal 3 million pounds to less than one-half million pounds.

United Grain Growers expanded its contracting for certain specialty crops last spring, partly in order to penetrate markets formerly held by Federal Grain Limited. These crops included sunflowers, buck-

wheat, peas, and brown, oriental and yellow mustard.

The seed division continued its business arrangements with DeKalb AgResearch, Inc. Winter wheat hybrids were tested for a second year and they appear promising. Some of the hybrid utility classes of wheats which were tested on the prairies this year performed better than Pitic 62, Glenlea and the best hard red spring varieties. The incidence of ergot has held up the hard red spring breeding program for several years, however, there is confidence this problem will be overcome. DeKalb sold its first hybrid wheat, 500 bushels of hard red winters, in Montana this fall. Yields are expected to be 25 per cent higher than standard varieties grown in the same area.

The outlook for earnings from seed operations this current fiscal year, particularly in view of the better outlook for grain prices, shows considerably more promise than it did at this time last year.

Subsidiary Companies

The businesses reported on so far are conducted in the name of and as divisions of United Grain Growers Limited. There are also other lines of businesses which are more conveniently handled through wholly-owned subsidiary companies. Four subsidiaries were active during the year and three were inactive, as they have been for a number of years. Each subsidiary has the same board of directors as United Grain Growers Limited, and the accounts are combined with those of the parent company in the Consolidated Financial Statements.

The Grain Growers Export Company Limited

This subsidiary is nominally active but did not transact any business. It allows your Company to keep in touch with shipping and market conditions. Since it does not require a separate office or extra staff, maintenance of this subsidiary does not add to Company operating expenses.

United Livestock Feeds Limited

This subsidiary deals in non-Board grain for its own account in addition to handling grain for the account of the Canadian Wheat Board.

Customers who deliver to elevators in British Columbia are entitled to sell their grain, within the province, either through the Canadian Wheat Board where quotas are observed, or as non-Board grain without quota restrictions. U.G.G. elevators in British Columbia consequently buy grain for the Canadian Wheat Board and for non-Board feed markets in the livestock areas of the province.

It is convenient to keep transactions of grain handled for the Canadian Wheat Board separate from the handling of non-Board grains. Thus in British Columbia, as in the prairie provinces, the parent company, United Grain Growers, acts as agent for the Canadian Wheat Board and buys grain for that body. The subsidiary, United Livestock Feeds Limited, buys non-Board grain as offered, and ships it forward as buyers want it.

The year's operations of United Livestock Feeds Limited produced moderate net earnings after payment to the parent company of regular charges for elevating and storing grain.

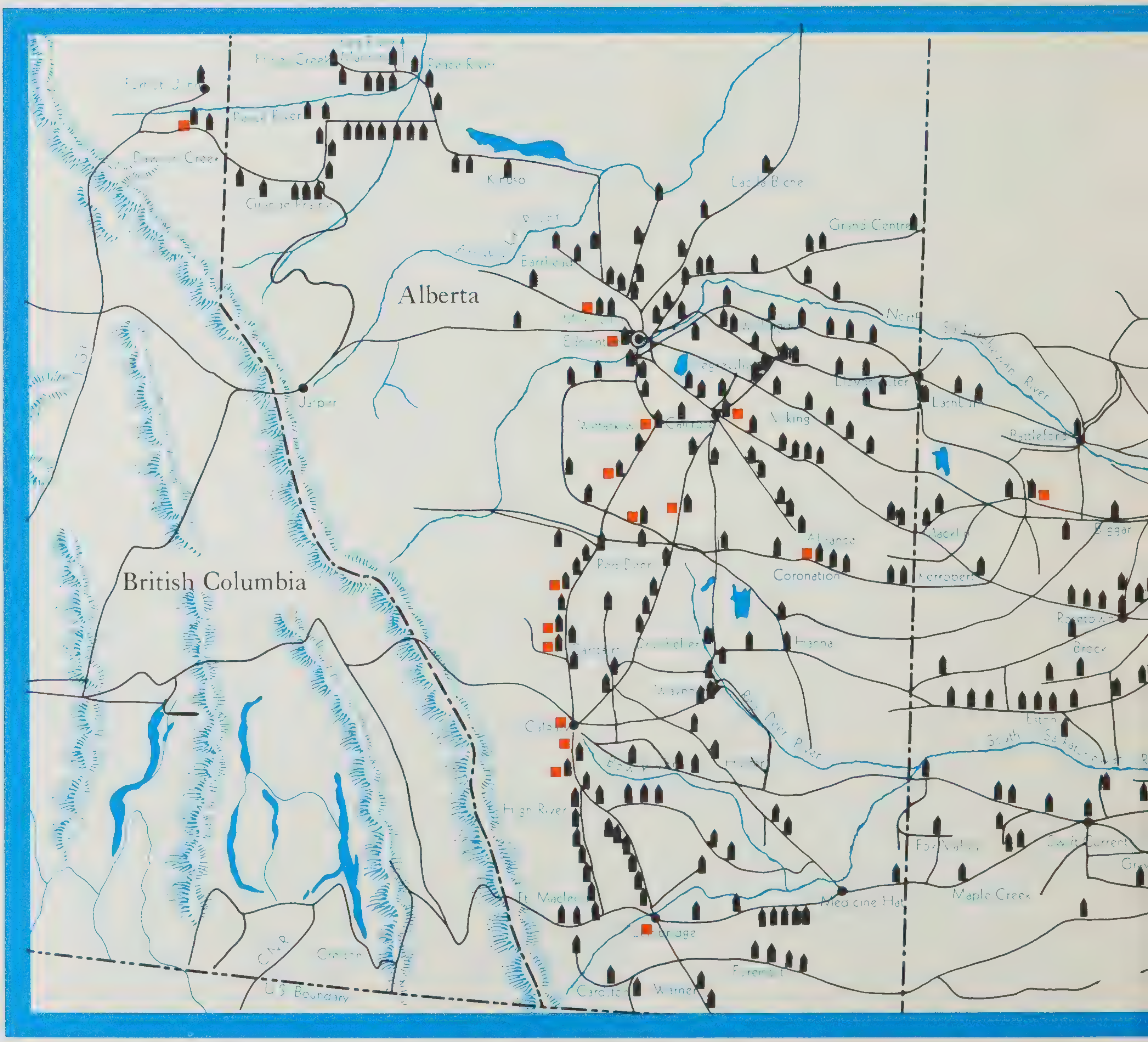
The Public Press Limited

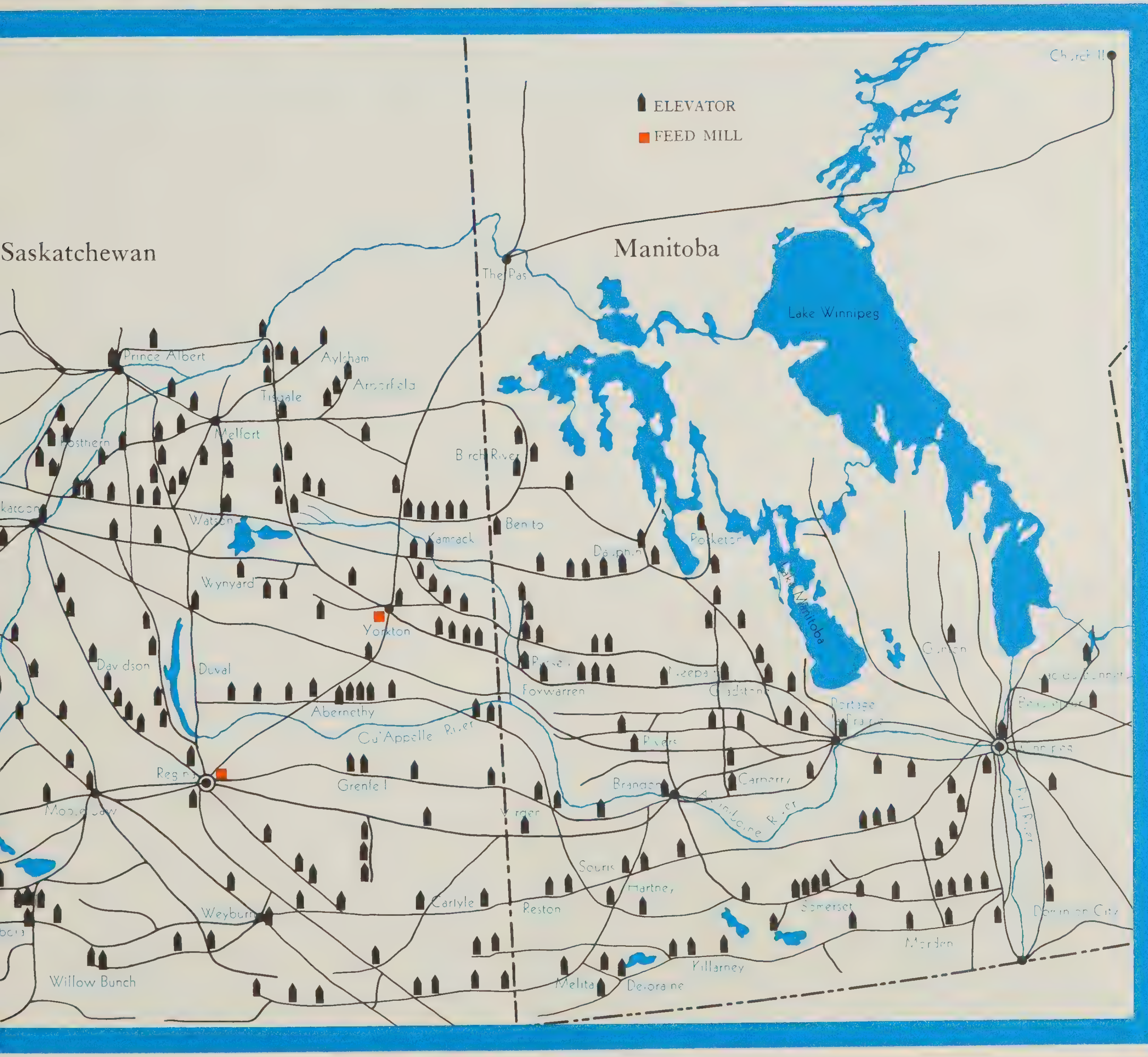
Public Press is a wholly-owned subsidiary which carries on a printing and publishing business.

In the publishing division, the most important operation is Country Guide, Canada's leading farm magazine. Recognized as the country's magazine authority on farm practice and farm policy, its circulation is nearly 300,000. Crops Guide, Dairy Guide, Hog Guide and Corn-Soy Guide are incorporated as special-interest sections in selected copies of Country Guide that go to farmers in these production categories. These sec-

The grain and feed systems that farmers built

United Grain Growers





ELEVATOR
FEED MILL
Saskatchewan
Manitoba
The Pas
Lake Winnipeg
Prince Albert
Aylsham
Tisdale
Melfort
Rosthern
Birch River
Watson
Kamsack
Dauphin
Wynyard
Yorkton
Duval
Foxwarren
Abernethy
Qu'Appelle River
Grenfell
Brandon
Carberry
Souris
Carlyle
Reston
Weyburn
Willow Bunch
Melita
Deloraine
Killarney
Morden
Dominion City

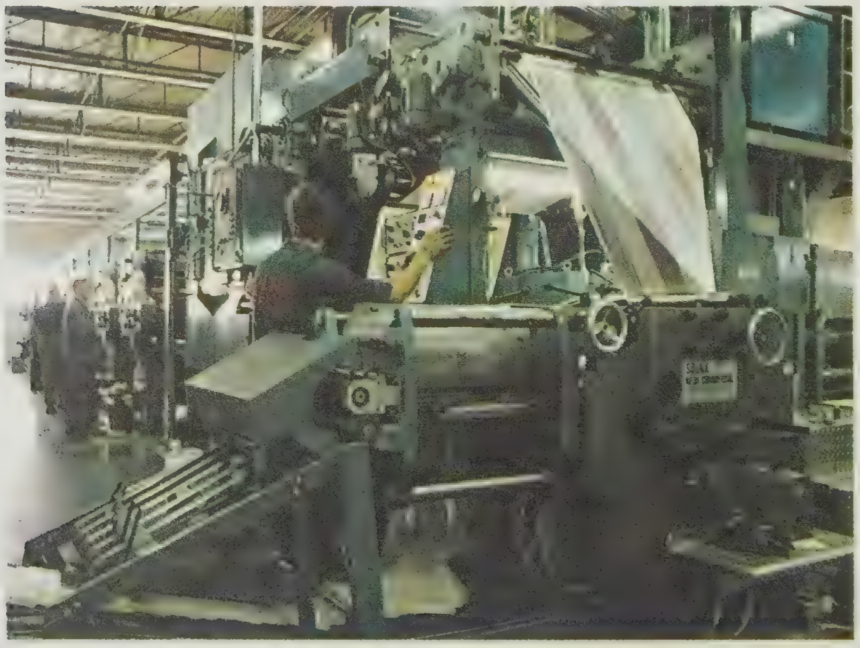
tions give increased depth to the magazine and bring in additional revenue.

Public Press also publishes Cattlemen, Canada's leading beef cattle magazine. Other activities of the Publishing Division include Guidepost, a direct mail advertising enterprise, and Agritel, a consultant to government and business on agricultural marketing and communications projects.

The business of the commercial printing division has expanded considerably in the past year with installation of new printing equipment and a broadened marketing program. The new Solna web offset press is now producing top-quality, full-color printing for commercial clients as well as the magazine group.

The escalating costs common to all Canadian publishing enterprises have slowed the effects of a substantial recovery in advertising revenue for your Company's magazines. The momentum of this recovery is still building, however, and its benefits promise a much stronger earnings picture in the current year.

The new Solna full-color web offset press producing catalogues for a commercial customer of Public Press Limited.



In the printing division, the costs of new products and processes, combined with rapid growth in printing volume in a tight price market, depressed earning abilities. It is expected that improvements in production efficiency will improve earnings as the printing division consolidates its position.

U.G.G. Insurance Agencies Limited

U.G.G. Insurance Agencies Limited is a wholly-owned subsidiary which carries on a general insurance business acting as agent and broker for well-known insurance companies.

Since its sub-agency business was sold in 1971, U.G.G. Insurance Agencies has continued to serve the insurance needs of the parent company and subsidiaries.

To meet changing insurance demands, U.G.G. Insurance Agencies is planning to expand its group insurance operations. These offer customers savings in premiums through mass marketing techniques. Already in effect are farmer group life insurance plans and employee group life insurance plans that offer considerable savings over individual policies. Under study are group fire insurance and group hail insurance, both of which offer premium savings of 15 to 25 per cent.

With few people involved in operations, overhead of this subsidiary is low. It again earned a modest net profit this past fiscal year.

United Feeds Limited

The operations of this subsidiary were described under the section dealing with feed operations. On August 1, of the current year, the assets and operations of the feed division of your Company and of United Feeds Limited were combined under United Feeds Limited. This was done because of certain tax savings and because a single management over both operations was considered more effective.

This subsidiary was formerly an associated company, jointly owned by United Farmers of Alberta and United Grain Growers. In March of 1971, United Grain Growers purchased the shares owned by

UFA, and it is now a wholly-owned subsidiary.

Previous to its merger with your Company's feed division, the subsidiary owned eight feed mills, all in Alberta. It now owns 18.

Inactive Subsidiaries

United Grain Growers owns two subsidiary companies no longer required for the purpose for which they were incorporated. Their charters have been preserved in case occasion should arise to reactivate them for some advantage. United Grain Growers Terminals Limited is such a subsidiary. It formerly operated the terminal elevators at Thunder Bay. This subsidiary has been inactive for some years. The other subsidiary is the Country Guide Limited, whose former function of publishing Country Guide has for some years been assumed by The Public Press Limited.

Associated Company

In addition to businesses conducted either through divisions of United Grain Growers Limited and its subsidiaries, your Company has also found it convenient, at times, to be a joint owner of associated companies. The general advantage of such an arrangement is it allows pooling of resources from several companies. Since United Feeds Limited is now a wholly-owned subsidiary, United Grain Growers is joint owner of one associate company: XCAN Grain Ltd.

XCAN Grain Ltd.

XCAN Grain Ltd. is owned equally by United Grain Growers, Alberta Wheat Pool, Saskatchewan Wheat Pool and Manitoba Pool Elevators. Its main purpose is to increase the volume of western Canadian grain and oilseeds sold on world and domestic markets.

This associated company was formed in 1970, when the four principals subscribed and paid for 1,000 shares at par value of $100 each out of total authorized capital of $1 million.

A total volume of 91,000,000 bushels of grain, oilseeds and pellets were sold compared to 53,000,000 bushels the previous year. This constitutes about 12 per cent of the total grain exports by Canada during the last crop year and represents nearly a 100 per cent improvement over the first year's operation. This allowed XCAN to earn a modest net profit, similar to that earned the previous year.

During the past year, XCAN created a new market for Canadian grain through a financial arrangement with MOSILCA in Guayana, Venezuela.

MOSILCA's new flour mill and pasta plant began operations by using American wheat. With the help of the Grains Group in Ottawa, XCAN was able to conclude a financial arrangement with MOSILCA, with part of the risk being borne by Ottawa and part by XCAN through its principals. The contract calls for this organization to use *only* wheat of Canadian origin. Since the beginning of the agreement, XCAN has made several shipments of wheat from Thunder Bay to this market and expects the demand for Canadian wheat to continue and increase.

Also, as a direct result of this arrangement, XCAN has made sales of recleaned bulk oats. MOSILCA receives the oats through its grain elevator at the discharge port, then it bags it and distributes it to racehorse owners. Some grain screening pellets have been moved through MOSILCA. Additional quantities of both these commodities as well as alfalfa pellets will move into Venezuela.

XCAN plans to investigate the possibility of developing similar type projects for flour manufacturing, feed manufacturing, and oilseed crushing through the new Research and Development Fund.

XCAN has penetrated markets in Europe through Powell Union in London and through Eurograin, the agency of a large number of European co-operatives. Through its Vancouver office, the Company maintains access to the markets of Asia.

During the past year, the most dramatic change occurred in the grain export business since the war. XCAN's first year of oper-

ations was during a period of good demand for wheat and oilseeds. At the end of the last crop year, the company was concerned about the export prospects for the crop year ending July 31, 1972.

However, events have changed. The agricultural disaster suffered by Russia and the increasing requirements of China have given tremendous opportunities to exporting countries. These two countries alone, representing over one billion people, have strengthened the demand for wheat and feed grains.

Farm Organization Grants

During the past year, your Company continued its long-established policy of financial support to other farm organizations. It contributed to the Canadian Federation of Agriculture and, as an interprovincial member, is represented on its board of directors. As a direct member, United Grain Growers also supported the Federations of Agriculture in Saskatchewan and British Columbia, the Farm Bureau in Manitoba and Unifarm in Alberta.

Your Company also supported, with personnel and money, activities carried on by 4-H groups. Research grants and scholarships for attendance of young people at institutions and courses for agricultural education were continued.

The Grain Grower

Your Company's farm business digest The Grain Grower continued to attract readers. Its reputation and usefulness are attested by the number of readers who renewed their subscriptions during the year. All agricultural extension personnel of the prairie provinces and many vocational agricultural colleges and Department of Manpower students are paid subscribers to this service. The Grain Grower accepts no advertising.

In the 10 years during which it has been published, it has performed a useful service to western agriculture, helping cement the bond between the Company and its customers and the whole farm community.

International Wheat Agreement

Despite continuing requests by U.S. and Canadian farm organizations, including United Grain Growers, for their governments to press for minimum and maximum prices in the International Wheat Agreement, the International Wheat Council did not do so at its most recent meeting.

Unlike previous agreements, the International Wheat Agreement which entered into force on July 1, 1971 and runs until mid-1974 contains no obligations for minimum and maximum prices.

The present agreement provides only for consultation in the event of actual or threatened market instability, including price fluctuations, to seek ways to arrive at mutually acceptable solutions. It also contains provisions to renegotiate an agreement containing price provisions when the International Wheat Council believes such a negotiation can be successful.

At the conclusion of its 64th session, July 5-11 in Tokyo, the International Wheat Council's communique contained these comments:

"The Council considered the possibility of action under Article 21 of the Wheat Trade Convention, 1971, which requires it to examine at an appropriate time the question of prices, and related rights and obligations, and to request the convening of a negotiating conference when these matters are judged capable of negotiation with the objective of bringing them into effect within the life of the convention. The Council did not judge these issues to be capable of successful negotiation at the present time.

"It reaffirmed, however, its objective of bringing substantive economic provisions into effect as soon as possible; and directed the Executive Committee to keep the matter under review and to report on it at the next session of the Council in November 1972."

In other comments, the Council observed that "taken together" the wheat carry-over held by the seven top exporting countries

at the beginning of their 1972-73 crop years "were not burdensome." It estimated the stocks to be 1.9 billion bushels — about equal to last year's world trade. Though the estimated world stocks are about two per cent above the carry-over at the beginning of this crop year, they are down 30 per cent from the level of carry-over stocks at the beginning of 1970-71.

The Council forecast world wheat production this current year, excluding that of the People's Republic of China, to be approximately 11 billion bushels. This is a reduction of about five per cent from last year's record production. World trade in wheat this current year is expected to be up slightly from last year.

It should be noted that these predictions were made before the impact of the massive sale of wheat by the United States to the USSR was assessed.

In form, all wheat agreements are bargains between buyers and sellers, between importing and exporting countries. The agreements from 1949 until 1967 had a maximum and minimum price ceiling, and Canada supported the concept. It was believed that the same price provisions which held prices down when wheat was scarce would operate in times of abundance. Such was to prove not the case after the International Grains Arrangement, with price ranges at 21 cents a bushel higher for Canadian wheats, came into effect in 1968. The price agreement stimulated production among both importing and exporting countries and led to a reduction in world trade. Minimum price levels collapsed in 1969 when all exporting countries were selling below the floor price.

The directors of your Company support the principle of establishing minimum and maximum prices for wheat, as existed under the terms of the previous International Grain Arrangement. They would prefer, however, that machinery to enforce maximum and minimum prices be introduced, and that considerably more detail be spelled out concerning what differentials should prevail between different classes of wheat and how to calculate minimum prices with allowance for transportation costs. These were only vaguely specified in the International Grains Arrangement and allowed the collapse of the minimum price provisions.

Grain Exports

Despite snow blocking rail lines to Vancouver and an extended longshoremen's strike, a record amount of grain was exported last year.

Canadian grain and oilseed exports to overseas destinations and the United States totalled 791.6 million bushels during the 1971-72 crop year.

This is an increase of 120 millions from the previous high of 1970-71 when Canada sold 671.7 million bushels.

Shipments of barley and flaxseed set new high records. Bulk wheat and rye exports exceeded the high shipments of last year.

Canada exported 504.1 million bushels of wheat and flour. This represents 70 million bushels more than the 434 million bushels exported during the last crop year.

Wheat clearances of 478.1 million bushels, an increase of 68.6 millions from the 1970-71 crop year, were the heaviest volume moved since the 1966-67 crop year when 483.5 million bushels were exported.

The People's Republic of China with purchases of 111.7 million bushels was Canada's number one wheat customer for the fourth consecutive year. Increased sales to the USSR of 109.6 million bushels, the largest volume since 1965-66, made this Canada's second largest purchaser during the last crop year. Japan imported 50.6 million bushels and remained our third most important market. Reduced sales of Canadian wheat to Britain — 47.9 million bushels — dropped this country to fourth position from second in 1970-71.

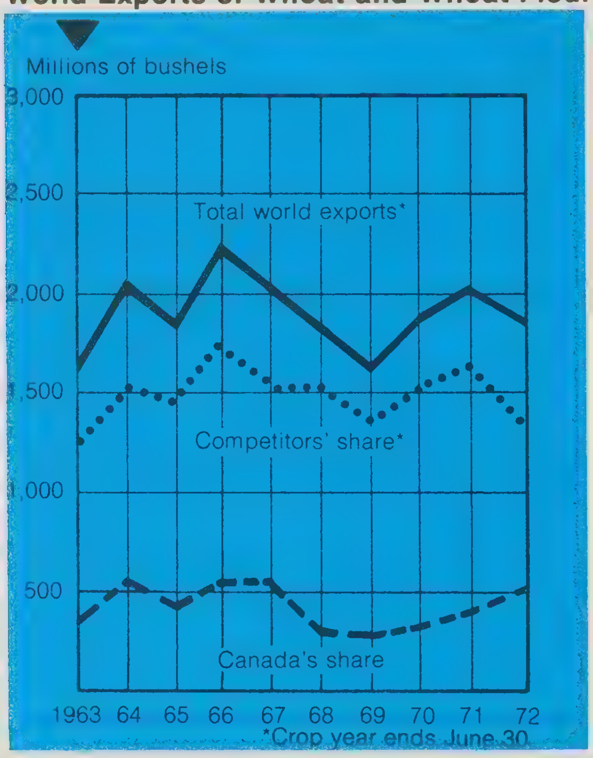
Exports of barley reached an all-time high of 224.3 million bushels. This was a

substantial increase from the previous year's record of 172.3 million bushels.

Thirty countries bought Canadian barley in 1971-72 compared to twenty-five the previous year. Italy, Japan and Britain were Canada's best customers.

Exports of oats amounted to 10.2 million bushels compared to 13.1 million bushels the previous year. Italy purchased the most.

World Exports of Wheat and Wheat Flour



Rapeseed exports of 42.6 million bushels are 4.2 million bushels less than last year's record high of 46.8 million bushels. Japan was the principal market, with imports of 22.3 million bushels.

Flaxseed exports of 25.7 million bushels set an all-time high. The previous high record was set in 1956-57 when 21.6 million bushels were exported.

Exports of rye amounted to 10.8 million bushels. This is the largest volume exported since 1955-56 when 12.9 million bushels were cleared.

New Grain and Farm Policies

This past year saw introduced a number of federal policies that affect prairie farmers. A review of some of the more significant follows:

New Wheat Grades. The final phase of Canada's new red spring wheat grading system was implemented by the Canadian Grain Commission at the beginning of the 1972-73 crop year. No. 1 Canada Western Red Spring Wheat was introduced last year. The other grades for bread wheat varieties are now No. 2 Canada Western Red Spring Wheat which replaces No. 3 and a small part of No. 4 Manitoba Northern, and No. 3 Canada Western Red Spring Wheat which takes in the bulk of No. 4 Manitoba Northern, No. 5 wheat and all the Garnet grades.

Three utility grades of wheat have also been introduced. No. 1 and No. 2 Canada Utility will be composed of feed and non-bread varieties such as Pitic 62 and Glenlea. No. 3 Canada Utility will replace the former grades of No. 6 and Feed Wheat.

No. 1 and No. 2 Canada Western Red Spring Wheat are binned according to protein levels at terminals. Protein levels range from 12 to 15 per cent. Other grades are not segregated on a protein basis.

The directors of United Grain Growers in their submissions to government concerning the recently revised Canada Grain Act pressed for a grading system that would have a smaller number of grades and would allow Canada to compete with other exporting countries on a protein basis. Your Company at present is co-operating with the Canadian Grain Commission with country elevator protein testers at trial points to see if it is feasible to segregate wheat on a protein basis at the shipping point level.

New Beef Grades. Canada's new carcass grading system which was announced last July was implemented on September 5th. The new system pinpoints quality and quantity of lean meat more accurately. Carcasses are knife-ribbed between the 11th and 12th ribs, fat thickness is measured and color, texture and firmness of the meat in the rib-eye is assessed.

There are nine quality grades compared to 11 in the old system: Canada A, Canada B, Canada C Class 1, Canada C Class 2, Canada D Class 1, Canada D Class 2, Canada D Class 3, Canada D Class 4 and Canada E. The top two grades, Canada A and Canada B, are further subdivided into four fat categories based on the actual fat thickness at the rib-eye.

The directors of your Company welcome the new carcass grading system since the more accurate description of grades will compensate those cattlemen who want to breed and feed to meet certain carcass grades. There will be some concern about so many dairy type animals falling in the top grade and, undoubtedly, certain adjustments will have to be made before the system functions well. Nevertheless, more accurate government grades are in the producer's interest, and he always has the option of selling on a live basis. The new grading system was developed chiefly by the initiative of the Canadian Cattlemen's Association, working with the federal government, the meat trade and the Canadian Federation of Agriculture.

Adjusted Freight Rates for Alberta Feed Grains. The Canadian Wheat Board finally changed the regulations, and street prices of oats and barley will be basis freight to Thunder Bay *or* Vancouver — whichever is lower. This means payments for feed grains, particularly to farmers in the Peace River blocks of B.C. and Alberta, will be significantly greater.

Traditionally the street price system used by the Canadian Wheat Board to purchase feed grains at the elevators has been based on the assumption that all feed grains are sold through Thunder Bay. Local street prices were established by setting a Thunder Bay price and subtracting the freight costs from the local elevator to Thunder Bay. However, with the large increase in volume of feed grains exported to oriental and Central and South American markets, much more grain now goes through Vancouver. Market prices basis Vancouver are traditionally higher than those at Thunder Bay, yet the street purchasing price was geared to Thunder Bay. Therefore, despite the lower freight costs from Alberta to Vancouver than to Thunder Bay, Alberta farmers usually received less for their grain than they would if the street price was based on Vancouver shipment. The increase in initial price for a bushel of barley due to the change in Wheat Board policy will vary from 8-3/4 cents at Fort St. John to 1/2 cent at Walsh.

The directors of United Grain Growers commend the Wheat Board for this change in pricing methods since the former policy discriminated against Alberta grain growers by not recognizing their freight advantage to Vancouver.

Two-price Wheat. The payment for domestically-consumed milling wheat was raised to $3 a bushel, basis 1 CW Red Spring in-store at the Lakehead, last crop year. This supersedes the former two-price wheat policy introduced in 1969, after wheat prices fell below the IGA minimum, of charging domestic millers $1.95-1/2 per bushel, basis No. 1 Northern. Under the present policy, domestic millers continue to pay the $1.95-1/2 and the difference is paid by the federal government.

The amount of payment to a western Canadian producer was based on the producer's acreage seeded to the six major grains, fallow acreage, and special crop acreage and forage acreage. Eligible forage acreage could not exceed one-third of other acreage. The biggest eligible acreage base for a producer was 640 acres. The amount paid per acre was based on the total eligible acres in western Canada and the amount of wheat used for domestic food consumption. The payment this past year, based on 68 million eligible acres and 55 million bushels, was 84.6¢. The biggest payment per producer was $541.44 and the average was $325.

The directors of United Grain Growers commend the government for recognizing that wheat growers who sell on world markets are victimized by domestic inflation. They would point out, however, that this two-price wheat policy: (1) discriminates against producers who sell larger amounts of wheat;

(2) is a misnomer from the sense that compensation is made to all producers, regardless if they grow wheat; (3) reduces an already small government agricultural budget by not charging millers the full amount, which would increase the price of bread very little, and diverting the savings to other farm programs.

Grassland Incentive Program. This program was introduced in 1971 as an incentive to increase forage production for cattle and reduce grain and oilseeds acreage. The regulations were amended so that, starting in 1972, no payment was to be made in the year the forage was seeded. The $10 per acre payment is to be made the following year when inspection verifies that the forage crop is still in production and that the total increase in forage acreage has been maintained. The Grassland Incentive Program will apply until four million acres have been diverted to forage or to the end of 1974, whichever occurs first.

The directors of United Grain Growers approve of this change in regulations since some growers were simply collecting $5 an acre by seeding forage and then putting the land back into grain production. This acreage would still be assessed against the four million acreage limit and could limit assistance to someone who truly wants to increase his forage acreage. It is doubtful whether the payment has artificially converted grain farmers to cattlemen — the payment is a drop in the bucket compared to the economics of the cattle business — yet it is an immediate help to cattlemen who must wait some time before a newly-seeded forage produces earnings.

Temporary Wheat Reserves Act. Under this statute the federal government pays the Canadian Wheat Board the carrying charges on all wheat in excess of 178 million bushels in public storage. Payments owing for the 1970-71 crop year were held up in late 1971 because the government expected this statute to be repealed in order to establish the proposed grain receipts stabilization program. After the proposed stabilization program was withdrawn, payments on the wheat accounts were made and amounted to $64.8 million for 1970-71 and $30.8 million for 1971-72.

The directors of United Grain Growers approve of the government paying its outstanding accounts under this statute since the Wheat Board stored this amount of wheat on the understanding that these payments would be made. It is doubtful, however, if the Temporary Wheat Reserves Act is of any value since the present handling and transportation system is efficient enough that a wheat inventory greater than 200 million is not needed. The government money would be better spent on other farm programs that benefit farmers directly.

Small Farm Development Program. The federal government announced last December a farm adjustment policy called FARM Plan (Farm Adjustment and Resource Mobility Plan). The policy is to run for seven years and is funded by $150 million of federal government money. The object of the plan is to help smaller-scale farmers, who have the desire and ability, to enlarge enough to earn a better living, and to ease the transition out of farming for those who do not want to farm. The first set of programs deals with land transfer and is designed to make it easier for farmers to buy and sell land; one of the features is government authority to directly purchase and resell land. The second set of programs is concerned with information and counselling, for both those who want to leave the farm and those who want to expand. Since this federal policy would overlap with provincial programs, the federal government has assumed the responsibility of setting the broader aims and financing, and provincial governments will implement and administer the programs. Alberta agreed to implement the programs in July, followed by the acceptance of Ontario in August and New Brunswick in October.

The Small Farms Development Program was passed by order-in-council rather than parliament and, because of that, the merits of the program have not been widely debated or studied. For this reason the directors of United Grain Growers neither accept nor oppose the program. Certain observations

about the program, however, can be made: (1) The number of farmers will be reduced; (2) land prices will be artificially interfered with; (3) possibly there will be more farmers with an adequate net income and more farmers able to retire from farming gracefully. The program implies no commitment by the federal government to increase net returns per unit of product produced by farmers but to increase net income by increasing the scale of production. There is also the sensitive matter of "counsellors" whose competence and real intentions could be questioned.

New Tax Legislation. The new legislation introduced at the beginning of 1972 has serious implications for farmers. Some of the taxation statute is so complicated that even tax professionals can't figure out the meaning of the language, and the whole picture is clouded by the entry of provinces into the succession duty and gift tax fields.

The major modifications include: (1) Changes in federal income taxes whereby farmers will no longer be able to establish or add to basic herds and will no longer be able to use straight-line basis of calculating capital cost allowances on assets acquired after December 31, 1971; (2) the introduction of federal capital gains taxes on property that increases in value after December 31, 1971, and is disposed of to anyone but a spouse; (3) with the withdrawal of the federal government from the field of succession duties, all provinces, except Alberta, intend to levy estate taxes effective January 1, 1972; (4) the federal government also abandoned the gift tax field and all provinces, except Alberta, are now taxing gifts.

The directors of United Grain Growers are particularly opposed to taxes that would hinder passing on farm assets to relatives who plan to continue actively farming. Capital gain, succession duty and gift taxes put an additional burden on people inheriting already-depressed farm businesses. They suggest that shareholders and customers acquaint themselves with the implications of the new tax regulations by consulting competent lawyers and tax specialists. Earlier this year, United Grain Growers commissioned a lawyer to analyze the tax situation, as it affects farmers, and released the information through the Grain Grower. Free copies are available to farmers by writing for: Tax Article, United Grain Growers, Winnipeg, Manitoba R3C 3A7.

Farm Product Marketing Agencies Act. This legislation passed last fall, provided a vehicle under which a council, national marketing plans and agencies can be created. A council has been established and in August a proposed plan for national market regulation of eggs was submitted to the council. The egg plan will consist of two levels of authority, the National Egg Marketing Agency and provincial producer marketing boards. The Agency's function will be to determine the total level of production of eggs in Canada, and to allocate production among provinces.

Marketing plans for other products have not been submitted to the council, however, the means whereby they can, exist. The key phrases in the Act, as they pertain to products such as beef and hogs, include: ". . . as a result of declarations by provincial governments following plebiscites, or otherwise, that the majority of the producers thereof in Canada is in favor . . ." and ". . . the Governor in Council shall try to appoint one-third of the members of the council from the four western provinces."

The directors of United Grain Growers opposed Bill C-176 when it was introduced, on these grounds: (1) It possessed powers to limit Prairie farmers' production of meat — fed on the lowest-cost energy in the country; (2) it empowered the government rather than the individual to decide who should keep livestock and who should not; and (3) at a time when other farm policies were aimed at freeing the movement of grain and letting the market decide who should produce, it introduced a counter policy which could let ballots rather than cost of production decide which region and which farmers could produce. These views are unchanged.

The directors of your Company recommend that the marketing bill legislation be

amended in order that the number of producers in Canada not be used as the measuring stick of acceptance or rejection by which a product could come under the plan; if allowance is not made for numbers of livestock, a plan opposed to the wishes of prairie producers due to their being outnumbered by Eastern producers could be introduced. Further they suggest that detailed studies of the real impact of production controls on prices, and the influence of U.S. imports, precede any plebiscite.

Conclusion

This report shows that United Grain Growers is stronger and better equipped than ever before financially, in physical equipment and in organization. These are essential if your Company is to meet the challenges ahead and continue to grow in strength and influence.

Once again the directors wish to place on record their appreciation of the work of staff whose efforts and abilities have made possible the results recorded. Particular thanks is due elevator managers who put in extra long hours this past year to keep the grain moving.

Appreciation must also be extended to Local Board Directors who so ably kept a close watch on conditions at their local point and advised the directors and management of their first-hand impressions. The directors of your Company were guided in their decisions by the excellent response to requests for advice concerning the Wheat Pools' takeover of Federal Grain Limited, farm machinery problems and the grain handlers' negotiations at Vancouver terminals.

It is important, too, to remember that your Company's success is largely due to the volume of grain annually delivered by the thousands of shareholders and customers. This report illustrates, as a result of the least-stocks-in-store policy of the Canadian Wheat Board, revenue from handling grain is the key to maintaining and rebuilding your country elevator system. There is plenty of space at most elevators and it is vital that shareholders and customers do what they can to induce other farmers to deal with your Company. No one can vouch better for its grain handling service than a farmer who delivers his grain to United Grain Growers.

Your Company prospers only as western Canadian farmers prosper, and fortunately, the outlook for both appears brighter than it has for several years. The world inventory of wheat is no longer burdensome, a sustained high level of exports for barley seems possible, and the long-term future for expansion of the beef industry in western Canada looks good.

With the federal election completed and most of the political puffery associated with it laid to rest, for a short time at least, the key issue is whether prairie farmers want a market- or a government-dominated agriculture. The snare of a government-dominated agriculture is that of the 264 MPs, 162 come from Ontario and Quebec, and so on any issue that touches their common interest, even if it harms the West, these two provinces will have their way. Such a trap was exposed in the creation of Bill C-176; and it is evident in the current dispute about the pricing of feed grains whereby eastern interests are striving not for *equitably-priced* but *equally-priced* feed grains.

Western Canadian farmers can produce grain at a lower cost than anyone else in this country, and possibly the world. Their interests, and thus those of prairie cattlemen and hog producers, indisputably are export-orientated and expansionary rather than domestic-orientated and restrictive. Foreign markets must be an extension of the Canadian market rather than a residual outlet for surplus production after the domestic market, divided on the basis of regional shares, is met.

Because of the political makeup of this country, Bill C-176 and its implementation will return, and there will be pressure to submit more than poultry and eggs to supply control. The real issue of Bill C-176 — security of income — has been barely alluded to in the round-about references to supply control, orderly marketing and market shar-

ing. Yet security of income is the fundamental issue.

The federal government in recent years, has found its tight control over grain operations expensive and embarrassing politically. There have been definite moves to free grain growers and the industry. This is good, yet still leaves the farmer subject to the yo-yo antics of prices and sales. The Farm Product Marketing Agencies Act is one attempt to correct these failings. Provincial governments have entered the fray and some, in an attempt to provide income stability not provided by the federal government, have proposed dividing up the market into provincial kingdoms and giving quotas to producers who are presently supplying the market. This conflicts with federal programs aimed at freeing production and orientating producers towards export markets, and replaces them with layers of marketing boards and a domestic market orientation.

Income security can be achieved by other means. The present cash flow situation disguises the impact that inflationary costs have on farmers' incomes. There is no escaping the axiom: Price x Quantity — Expenses = Net Income. The directors of United Grain Growers view a federal proposal to provide some form of income stability as priority legislation.

Such a proposal would be aimed at bringing the annual income of commercial farmers up to the average income level of small businesses. The grain stabilization bill, C-244, which was withdrawn last fall due to heavy criticism, contains the elements needed for grain farmers. It does not interfere with markets, it does not interfere with individual farmer decision-making, and costs are shared both by farmers and the federal government. Such a bill, with a factor for inflation introduced, would provide some of the stability that prairie grain growers need. Similar income stability schemes, whether they be by price insurance, direct payment or forward contracting, would be useful to stockmen.

Western Canadian farmers can depend in the long run on their land and skills. They can hold their own in world markets against any fair competition. There is ample justification for believing that in future years there will be plenty of grain to handle.

Thus your Company's facilities for handling and storing grain perform an essential function. There is important work ahead for your Company in maintaining, improving and expanding its equipment. Continuing capital investment and imaginative programs are called for if United Grain Growers is to rise to its opportunities and adequately meet the needs of its members and customers.

AM Runciman

President

Winnipeg, Manitoba
November 8, 1972

Consolidated Balance Sheet

July 31, 1972

ASSETS

		1971 Comparison
Current		
Cash	$ 381,000	$ 318,000
Marketable securities, at cost (note 1) (Approximate market value-$992,000)	722,000	1,062,000
Accounts and accruals receivable (note 1)	10,650,000	9,204,000
Inventories (notes 1 and 2)	57,015,000	70,341,000
Prepaid expenses	1,104,000	910,000
	$ 69,872,000	$ 81,835,000
Other		
Loans receivable, secured	$ 333,000	$ 342,000
Other investments (note 3)	275,000	250,000
	$ 608,000	$ 592,000
Fixed		
Properties, at cost (note 4)	$ 67,671,000	$ 63,658,000
Accumulated depreciation	28,774,000	27,112,000
	$ 38,897,000	$ 36,546,000
	$109,377,000	$118,973,000

Approved by the Board:

A. M. Runciman Director

Allan Smith Director

LIABILITIES

		1971 Comparison
Current		
Bank loans, secured (note 1)	$ 33,150,000	$ 40,250,000
Other loans	3,131,000	8,508,000
Unpresented cheques and grain cash purchase tickets	12,043,000	13,193,000
Accounts and accruals payable	5,643,000	4,880,000
Income and other taxes accrued	43,000	873,000
Dividend to shareholders payable September 1, 1972.	391,000	391,000
Current maturities of long-term debt	3,597,000	2,290,000
	$ 57,998,000	$ 70,385,000
Long-Term		
Promissory notes (note 5)	$ 6,657,000	$ 6,535,000
Purchase agreement maturing $118,000 annually to 1995	2,590,000	2,708,000
Patronage dividends (note 5)	8,660,000	7,962,000
	$ 17,907,000	$ 17,205,000
Deferred Taxes on Income	$ 7,040,000	$ 6,477,000

SHAREHOLDERS' EQUITY

Capital Stock (note 6)		
Class A non-voting redeemable preferred shares callable at $24, par value $20 each Authorized 550,000 shares; Outstanding 325,830 shares	$ 6,517,000	$ 6,515,000
Class B (membership) shares par value $5 each Authorized 200,000 shares; Outstanding 55,922 shares	280,000	280,000
	$ 6,797,000	$ 6,795,000
Retained Earnings (note 7)	19,635,000	18,111,000
	$ 26,432,000	$ 24,906,000
	$109,377,000	$118,973,000

Consolidated Earnings

For the Year Ended July 31, 1972

				1971 Comparison
Operating revenues			$ 36,835,000	$ 35,835,000
Income from investments, net			93,000	109,000
			$ 36,928,000	$ 35,944,000
Operating, general and administrative expenses, including:	1972	1971		
Interest on long-term debt	$ 976,000	$ 977,000		
Remuneration of directors and officers (note 8)	258,000	241,000		
Depreciation	2,212,000	2,162,000	32,260,000	31,220,000
Earnings before the undernoted			$ 4,668,000	$ 4,724,000
Provision for patronage dividend			1,350,000	1,200,000
			$ 3,318,000	$ 3,524,000
Provision for taxes on income including $520,000 deferred (1971-$370,000)			1,770,000	1,840,000
Net earnings from operations			$ 1,548,000	$ 1,684,000
Gain on property disposals, less deferred tax of $43,000			384,000	307,000
Balance of proceeds on disposal of insurance sub-agency business			—	54,000
Net earnings			$ 1,932,000	$ 2,045,000

Consolidated Retained Earnings

For the Year Ended July 31, 1972

		1971 Comparison
Balance at beginning	$ 18,111,000	$ 16,474,000
Net earnings	1,932,000	2,045,000
	$ 20,043,000	$ 18,519,000
Deduct:		
Dividend of 6% declared on Class A shares	$ 391,000	$ 391,000
Dividend of 6% provided on Class B shares	17,000	17,000
	$ 408,000	$ 408,000
Balance at end	$ 19,635,000	$ 18,111,000

Consolidated Source and Use of Funds

For the Year Ended July 31, 1972

		1971 Comparison
Source of Funds		
Operations	$ 5,630,000	$ 5,447,000
Issue of promissory notes	3,127,000	1,900,000
Issue of capital stock	2,000	13,000
	$ 8,759,000	$ 7,360,000
Use of Funds		
Capital expenditures for properties, net	$ 4,135,000	$ 1,722,000
Investment in associated companies	—	278,000
Retirement of long-term debt		
Promissory notes	3,123,000	1,515,000
Patronage dividend liabilities	652,000	715,000
Shareholders' dividends	408,000	408,000
Other	17,000	150,000
	$ 8,335,000	$ 4,788,000
Increase in working capital.	$ 424,000	$ 2,572,000
Working capital at beginning	11,450,000	8,878,000
Working capital at end	$ 11,874,000	$ 11,450,000

Notes to Financial Statements

		1971 Comparison
1. **Bank Loans**		
Inventories, accounts receivable and marketable securities have been pledged as security for the bank loans.		
2. **Inventories**		
Grain held for the account of and valued on the basis of purchase prices set by The Canadian Wheat Board, plus handling costs	$42,998,000	$58,952,000
Other grains on the basis of market values which are fully hedged, plus handling costs	10,257,000	8,012,000
Farm supplies, seeds and feed, at cost	3,760,000	3,377,000
	$57,015,000	$70,341,000
3. **Other Investments**		
XCAN Grain Ltd.		
Common shares, at equity value	$ 50,000	$ 25,000
Advances	225,000	225,000
Sundry shares and memberships, at nominal value of $1	—	—
	$ 275,000	$ 250,000
4. **Properties**		
Country elevator properties, feed plants, seed cleaning plants, warehouses, sheds, etc.	$45,362,000	$43,920,000
Terminal elevator properties	18,095,000	16,351,000
Printing plant equipment	1,706,000	1,183,000
Miscellaneous equipment, including vehicles, office furniture and equipment	2,508,000	2,204,000
	$67,671,000	$63,658,000

The Company and its subsidiaries are lessees of office premises and equipment, various storage facilities and sites, a printing plant building, country housing for employees, and licensed vehicles, under leases with terms ranging up to twenty-four years, involving current minimum annual rental payments of approximately $1,000,000.

5. **Long-Term Debt**

Promissory notes and patronage dividend debentures and credits mature in each of the fiscal years as follows:	Promissory Notes	Patronage Dividend Debentures and Credits
1974	$ 1,554,000	$ 469,000
1975	1,512,000	445,000
1976	1,213,000	413,000
1977	973,000	380,000
1978	887,000	331,000
1979 to 1981	518,000	—
1979 to 1986	—	5,272,000
	$ 6,657,000	$ 7,310,000
Provision for allocation on 1971-72 grain receipts		1,350,000
		$ 8,660,000

6. **Capital Stock**

During the year ended July 31, 1972, 111 Class A shares were issued at a price of $20 per share. Under the terms of issue, Class B shares can be purchased and re-issued; transactions during the year resulted in a net decrease of 107 shares in the total outstanding.

7. **Retained Earnings**

Retained earnings include appropriations made in past years of $3,250,000 for special contingencies and $3,000,000 for general reserve.

8. **Remuneration of Directors and Officers**

Total remuneration of $27,000 was paid to eleven of the directors in their capacity as directors, and a total of $231,000 to eight officers in their capacity as officers. One of the officers is also a director of the Company.

Auditors' Report to the Shareholders

Price Waterhouse & Co.

chartered accountants

2200 One Lombard Place Winnipeg Man R3B 0X7 (204) 943-7321 Telex 07-587728

October 17, 1972

To the Shareholders

United Grain Growers Limited

We have examined the consolidated balance sheet of United Grain Growers Limited and subsidiary companies as at July 31, 1972, and the statements of consolidated earnings, retained earnings and source and use of funds for the year then ended, and all our requirements as auditors have been complied with. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at July 31, 1972, and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

Chartered Accountants

General Information

Charter and Capital Stock

United Grain Growers Limited was incorporated in 1906 under a Manitoba Charter and reincorporated in 1911 under an Act of Parliament of Canada. This Act, with amendments passed on six different occasions, is the Company's Charter today.

Authorized capital consists of $12,000,000 in 550,000 Class "A" shares, par value $20 each and 200,000 Class "B" shares, par value $5 each. Class "A" shares are non-voting, non-cumulative preferred, callable in whole or in part at $24 per share. They rank pari passu with Class "B" shares upon winding up. Class "A" shares carry a dividend preference of 5 per cent per annum to the extent earned before any other dividend is paid.

Under a Charter amendment in 1966 additional dividend on Class "A" shares may be declared at the rate of 1/2 of 1 per cent per annum to a total of 1-1/2 per cent out of earnings for any year, provided dividends for Class "B" membership shares for the same year are declared at not less than the total rate for Class "A" shares. Such additional dividends at the rate of 1 per cent per annum bring the rate to 6 per cent per annum and have now been paid in seven successive years, 1966-72, inclusive. Anyone may hold Class "A" shares but no one person can hold more than 2,500 such shares. While no voting rights attach to Class "A" shares, most holders have voting rights through owning Class "B" shares.

Issue and transfer of Class "B" membership shares is subject to approval of the Board of Directors. This is done to limit them to western Canadian farmers. No more than 25 shares may be held by one person. They may be purchased and reissued by the Company provided that no more than 10 per cent of the shares outstanding are held at any one time.

Holders of Class "B" shares are organized in some 330 shareholders' Local Boards, in which each member casts one vote. Each Local Board elects a Delegate to annual and general meetings; the expenses of Delegates who attend such meetings are paid by the Company. Control of the Company by its farmer members is exercised by this Delegate system. Delegates and directors must hold a Class "B" share and have an investment of not less than $25 in shares of the Company.

Of the 12 directors, 4 are elected each year for a 3-year term. By-laws of the Company require 3 directors in Manitoba, 4 in Saskatchewan, 4 in Alberta south of the Peace River District and 1 in either the Alberta or British Columbia area of the Peace River District.

APPENDIX A

Budgeting for Country Elevator Construction

To illustrate the problems associated with the costs of elevator construction, the following examples are outlined in budget detail. The data are taken from a case study in Saskatchewan where your Company is faced with either vacating the market because of the condition of present facilities, or remaining competitive on the market with some new or renovated facilities. A 20-year repayment period is assumed.

CONSTRUCTION ALTERNATIVE A

A plan to build a new 180,000-bushel twin annex elevator, at a station where a 50,000-bushel capacity unit is presently operating. The cost of the new construction is $251,000.

Projected Long-Run Market Conditions

An average annual handling of 500,000 bushels.
Average daily stocks in store of 70% of the working capacity.
A balance of revenues and expenditures on all other incidental items.

Revenues	Expenses
Handling Earnings: 5-3/4¢ x 500,000 bushels....$28,750	Fixed and Variable Costs Inclusive:
Storage Earnings: (.70 x 230,000 bus.) 12¢........$19,320	(12.6¢/bus. at 500,000 bus. handle)
Terminal Earnings: 2¢ x 500,000 bus. $10,000	12.6¢ x 500,000 bus $63,000
TOTAL $58,070	$63,000
Net Balance	**—$4,930**

The budget shows clearly that the operation as described is not viable. What then is required in the way of grain volume to keep such a unit viable? The following table shows the revenues and expenses for the described unit at various levels of handle.

Projected Handle	Revenues	Costs/Bus. Handle	Total Cost	Net Position
600,000 bus.	$65,820	11.5¢	$69,000	—$3,180
700,000 bus.	73,570	10.7¢	74,900	— 1,330
800,000 bus.	81,320	10.0¢	80,000	+ 1,320

Conclusion: These figures indicate that a handling of greater than 700,000 bushels is required to "break even" on the alterations proposed at present-day construction costs.

CONSTRUCTION ALTERNATIVE B

A plan to build a new 110,000-bushel composite elevator, at a station where a 50,000-bushel capacity unit is presently operating. The cost of the new construction is $197,000. The projected long-run market conditions are similar to those in Alternative A.

Projected Handle	Revenues	Costs/Bus. Handle	Total Cost	Net Position
500,000 Bushels	$52,190	11.9¢	$59,500	—$7,310
600,000 Bushels	59,940	10.8¢	64,800	— 4,860
700,000 Bushels	67,690	10.0¢	70,000	— 2,310
800,000 Bushels	75,440	9.3¢	74,400	+ 1,040

Conclusion: The above table shows that under Alternative B a handling of over 700,000 bushels is also required to break even. In fact, this program would require slightly more volume than Alternative A, as is shown by a comparison of the net position.

CONSTRUCTION ALTERNATIVE C

A plan to renovate the present 50,000-bushel elevator and construct a new 100,000-bushel annex. Total cost of this program is $150,000.

The projected long-run market conditions are similar to those is Alternatives A and B.

Projected Handle	Revenues	Costs/Bus. Handle	Total Cost	Net Position
500,000 Bushels	$51,350	11.1¢	$55,500	—$4,150
600,000 Bushels	59,100	10.1¢	60,600	— 1,500
700,000 Bushels	66,850	9.4¢	65,800	+ 1,050
800,000 Bushels	74,600	8.8¢	70,400	+ 4,200

Conclusion: The above table indicates that a handling of near 700,000 bushels is required to pay for the renovations and create the added storage capacity essential to manage the larger volumes of grain.

CONSTRUCTION ALTERNATIVE D

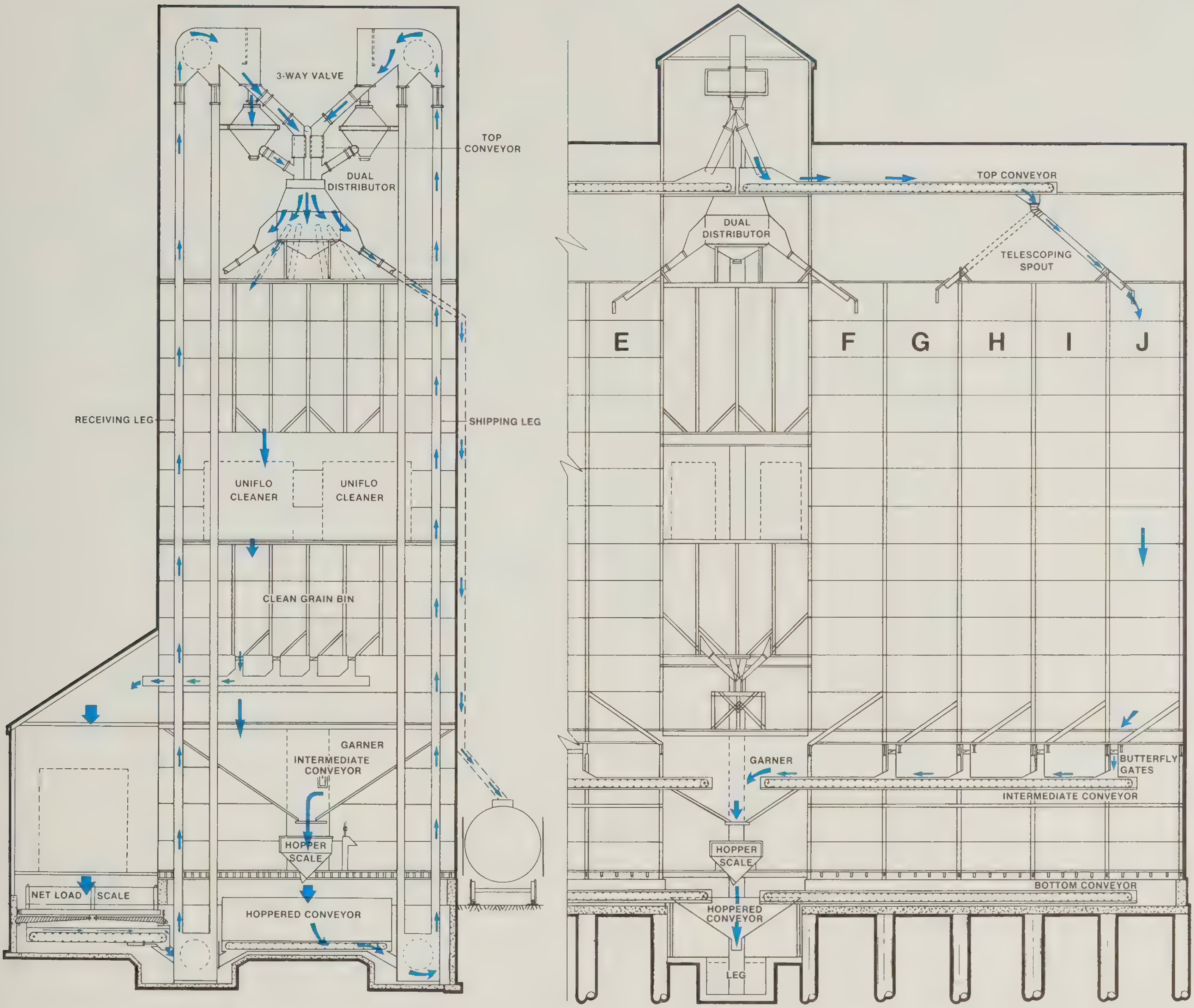
A plan to construct a new elevator with 75,000-bushel capacity at a station where a 50,000-bushel capacity unit is presently operating. The cost of the new construction is $170,000. The projected long-run market conditions are similar to those in Alternatives A, B and C.

Projected Handle	Revenues	Costs/Bus. Handle	Total Cost	Net Position
500,000 Bushels	$49,250	11.4¢	$57,000	—$7,750
600,000 Bushels	57,000	10.4¢	62,400	— 5,400
700,000 Bushels	64,750	9.6¢	67,200	— 2,450
800,000 Bushels	72,500	9.0¢	72,000	+ 500

Conclusion: The above table indicates that a handling of near 800,000 bushels is required to pay for the 75,000-bushel elevator. Because of lower storage earnings and a higher "unit" cost of construction the program outlined needs very high volume to recover present-day costs.

APPENDIX B

Grain Flow Through New Twin-Annex Elevator



In the newly designed twin-annex elevator, high rate of grain flow during receiving and shipping is obtained by several innovations. The main ones are the intermediate conveyor, net load scales, twin legs and the automatic controls that tie the system together.

Receiving: *When grain is received from the farmer, it is dumped and weighed. From the net load scale, the receiving leg elevates the grain and drops it through a three-way valve into one of three areas. The first area, and the way most grain moves, is from the valve to the top conveyor and then to one of the bins (G, H, I, J) in the annex. The second way is to the dual-flo distributor and directly into annex bins E or F. The third way is through the cleaners, where it is cleaned, held in holding bins and returned to the farmer or put into storage.*

Shipping: *When a carload of grain is to be shipped, the batching mechanism on the office control panel is set at the number of hoppers needed to load the car, and then the system is set to cycle. First, the butterfly gate in the annex bin opens and grain is conveyed by the intermediate conveyor to the garner. Grain from the garner flows into the hopper scale filling it to its initial setting, then the garner gate closes. At the same time, the gate of the hopper scale opens, releasing the weighed grain onto the conveyor; this conveyor takes the grain to the shipping leg where it is elevated and loaded into the car. The cycle repeats itself until the car is filled.*

Ten-Year Comparative Summary

Financial	1972	1971	1970
Operating revenues	$ 36,835	$ 35,835	$ 32,681
Net earnings	1,932	2,045	2,106
Working capital	11,874	11,450	8,878
Capital expenditures—net	4,135	1,722	1,275
Total investment in fixed assets	67,671	63,658	59,517
Accumulated depreciation on capital assets	28,774	27,112	24,904
Paid-up share capital	6,797	6,795	6,425
Shareholders' equity	26,432	24,906	22,899
Cumulative total of shareholders' dividends	11,990	11,599	11,208
Cumulative total of patronage dividends including interest thereon	27,725	26,131	24,728
Statistical			
Country handling—in bushels	144,000	121,000	102,000
Elevator storage capacities—in bushels Country	63,989	66,315	66,590
Terminal	16,285	16,645	16,645
Number of points where country elevators are operated	499	534	546
Total licensed elevators	768	793	825
Number of employees	2,116	1,956	1,801
Number of shareholders	57,642	58,063	56,142
Number of shareholders' locals	330	326	331

1969	1968	1967	1966	1965	1964	1963
(000's)						
31,068	$ 27,045	$ 26,584	$ 25,272	$ 21,677	$ 22,362	$ 20,627
1,336	978	1,521	1,482	600	768	401
7,608	7,617	8,491	9,042	9,141	8,862	8,178
1,810	6,096	6,067	2,756	2,100	2,432	1,601
58,382	56,438	50,541	44,839	42,080	40,198	38,041
24,057	22,516	21,177	20,043	18,624	17,501	16,497
5,952	5,671	5,329	4,813	4,810	4,808	4,813
20,704	19,444	18,464	16,746	13,451	13,340	12,817
10,773	10,433	10,110	9,807	9,474	9,248	9,022
23,411	22,158	20,965	19,525	18,200	16,942	15,675
94,000	89,000	114,000	105,000	97,000	101,000	96,000
65,675	65,844	59,681	58,530	57,700	57,300	55,400
16,645	16,645	13,350	13,350	13,350	13,350	13,350
(units)						
586	615	584	591	591	593	597
837	849	767	766	760	769	767
1,865	1,901	1,968	2,048	1,721	1,835	1,836
54,737	54,282	54,483	55,650	54,760	54,000	54,700
332	340	342	342	341	336	335